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LEGISLATIVE HISTORY
OF
H.R. 8363
88TH CONGRESS
THE REVENUE ACT OF 1964
PUBLIC LAW 88-272

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
SECOND SESSION

PART 2



Prepared by the Staff of the Committee on Ways and Means for the
use of the Committee on Ways and Means

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WASHINGTON : 1966

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(II)

INTRODUCTION

The legislative history of H.R. 8363 is a compilation of legislative history materials relating to the enactment of Public Law 88-272. The purpose of this history is to make readily available all of the public documents containing pertinent information relative to the enactment of the law.

This document sets forth in chronological order the action taken by Congress with respect to this law. For example, section 1 sets forth the public law; section 2, the President's state of the Union message; section 3, President's 1963 tax message, and so on.

The material contained herein has been inserted in toto, therefore, the original pagination appears in all cases.

In order to facilitate the utilization of the House floor debate on H.R. 8363 as well as the House and Senate floor debates on the conference report, this document contains an alphabetical listing of Members of Congress with cross-references to their remarks, as well as their extension of remarks. However, in the case of the Senate floor debate, the cross-references are made by Senate amendments in the order in which they were taken up on the floor of the Senate. The names of the Senators making remarks with respect to a particular amendment are listed alphabetically under each amendment. In this connection, however, the page numbers refer to the pages of this document. The floor debates are taken from the Congressional Record for the date indicated. The page numbers of the daily Congressional Record are bracketed.

Appendix II of this document is a comparison of the provisions of H.R. 8363, as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version and as agreed to by the conferees. For quick reference, it also contains a summary of Senate Finance Committee revisions and Senate floor amendments with conference action on such revisions and amendments. Also contained therein are recommendations of the Treasury Department not adopted; amendments considered and rejected by the Senate Finance Committee; and Senate floor amendments offered and rejected or withdrawn.

(III)

Section 20. Senate amendments and conference report	3047
Section 21. Summary of Senate amendments	1601
Section 22. Summary of conference committee action	1071
Section 23. Conference report	1077
Section 24. Brief summary of the provisions of the bill as passed by the conferees	4135
Section 25. House floor debate on conference report	8117
Section 26. Senate floor debate on conference report	1201
Appendix I. Revenue estimates relating to the House, Senate, and conference versions of the bill	4241
II. Comparison of provisions proposed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version, and as agreed to by conferees	4275

CONTENTS

TABLE SHOWING CONTENTS OF EACH PART

	Page
Part 1: Sections 1 through 9.....	91-1405
Part 2: Sections 10 through 15.....	1407-2493
Part 3: Sections 16 through 18.....	2495-3543
Part 4: Sections 19 through appendix.....	3545-4404
Introduction.....	III
Chronological history of the legislation.....	VII
Alphabetical listing of Members of Congress with cross-references to floor debates:	
A. House floor debate on bill.....	IX
B. Senate floor debate on bill.....	XI
C. House floor debate on conference report.....	XIX
D. Senate floor debate on conference report.....	XX
Section 1. Public law.....	1
Section 2. President's state of the Union message.....	131
Section 3. President's 1963 tax message.....	145
Section 4. Summary of the President's 1963 tax message.....	171
Section 5. Digest of testimony presented and statements submitted to the Committee on Ways and Means with respect to the President's 1963 tax message.....	253
Section 6. Compilation of press releases issued by the Committee on Ways and Means.....	351
Section 7. Bill as introduced in the House.....	395
Section 8. Bill as reported by the Committee on Ways and Means.....	707
Section 9. Committee report.....	1019
Section 10. Brief summary of principal provisions of H.R. 8363 "The Revenue Act of 1963".....	1407
Section 11. House floor debate.....	1415
Section 12. Summary of bill as passed by the U.S. House of Representatives (pts. A, B, C, and D).....	1627
Section 13. Bill as passed by the House and referred to the Senate Committee on Finance.....	1767
Section 14. Press releases issued by Senate Committee on Finance.....	2079
Section 15. Bill as reported by the Senate Committee on Finance.....	2105
Section 16. Committee report (pts. 1 and 2).....	2495
Section 17. Brief summary of the provisions of H.R. 8363 as reported by the Senate Committee on Finance.....	2777
Section 18. Senate floor debate.....	2797
Section 19. Bill as passed by the Senate with amendments of the Senate numbered.....	3545
Section 20. Senate amendments numbered.....	3947
Section 21. Summary of Senate amendments.....	4051
Section 22. Summary of conference committee action.....	4071
Section 23. Conference report.....	4077
Section 24. Brief summary of the provisions of the bill as agreed to by the conferees.....	4135
Section 25. House floor debate on conference report.....	4147
Section 26. Senate floor debate on conference report.....	4201
Appendix I. Revenue estimates relating to the House, Senate and conference versions of the bill.....	4241
II. Comparison of provisions as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version, and as agreed to by conferees.....	4275

CONTENTS

CHRON

TABLE SHOWING CONTENTS OF EACH PART

Part 1: Sections 1 through 9	1-1403
Part 2: Sections 10 through 15	1407-2493
Part 3: Sections 16 through 18	2497-3543
Part 4: Sections 19 through appendix	3547-4404
Introduction	
Chronological history of the legislation	VII
Alphabetical listing of members of Congress with cross references to floor debates:	
A. House floor debate on bill	IX
B. Senate floor debate on bill	XI
C. House floor debate on conference report	XIX
D. Senate floor debate on conference report	XX
Section 1. Public law	I
Section 2. President's state of the Union message	131
Section 3. President's 1963 tax message	145
Section 4. Summary of the President's 1963 tax message	171
Section 5. Digest of testimony presented and statements submitted to the Committee on Ways and Means with respect to the President's 1963 tax message	253
Section 6. Compilation of press releases issued by the Committee on Ways and Means	351
Section 7. Bill as introduced in the House	395
Section 8. Bill as reported by the Committee on Ways and Means	707
Section 9. Committee report	1019
Section 10. Brief summary of principal provisions of H.R. 2863 "The Revenue Act of 1963"	1407
Section 11. House floor debate	1415
Section 12. Summary of bill as passed by the U.S. House of Representatives (pts. A, B, C, and D)	1627
Section 13. Bill as passed by the House and referred to the Senate Committee on Finance	1767
Section 14. Press releases issued by Senate Committee on Finance	2079
Section 15. Bill as reported by the Senate Committee on Finance	2105
Section 16. Committee report (pts. 1 and 2)	2495
Section 17. Brief summary of the provisions of H.R. 2863 as reported by the Senate Committee on Finance	2777
Section 18. Senate floor debate	2797
Section 19. Bill as passed by the Senate with amendments of the Senate	3545
Section 20. Senate amendments numbered	3947
Section 21. Summary of Senate amendments	4051
Section 22. Summary of conference committee action	4071
Section 23. Conference report	4077
Section 24. Brief summary of the provisions of the bill as agreed to by the conferees	4135
Section 25. House floor debate on conference report	4147
Section 26. Senate floor debate on conference report	4201
Appendix I. Revenue estimates relating to the House, Senate and conference versions of the bill	4341
Appendix II. Comparison of provisions as passed by the House, with present law, Treasury recommendations, Senate Finance Committee version, Senate version, and as agreed to by conferees	4375

CHRONOLOGICAL HISTORY OF THE LEGISLATION

Date of President's state of the Union message-----	Jan. 14, 1963.
Date of President's tax message-----	Jan. 24, 1963.
Dates of public hearings before the House Committee on Ways and Means-----	Feb. 6, 7, 8, 18, 19, 20, 21, 25, and 26; Mar. 4, 6, 7, 8, 11, 12, 13, 14, 15, 18, 19, 20, 21, 22, 25, 26, and 27, 1963.
House bill number-----	H.R. 8363.
Date bill introduced in House of Representatives-----	Sept. 10, 1963.
Date bill reported by Committee on Ways and Means-----	Sept. 13, 1963.
House report number-----	H. Rept. 749 (with supplemental and separate views).
Date rule obtained—H. Res. 527, providing for a closed rule, waiving points of order against, 8 hours of debate, committee amendments, and 1 motion to recommit-----	Sept. 24, 1963.
Dates of House floor debate and final passage-----	Sept. 24 and 25, 1963.
Rule: H. Res. 527 adopted by a record vote—320 yeas, 66 nays, 46 not voting.	
Motion to recommit: Rejected by a record vote—199 yeas, 226 nays, 7 not voting.	
Final passage: Passed by a record vote—271 yeas, 155 nays, 6 not voting.	
Public hearings before the Senate Committee on Finance-----	Oct. 15, 16, 17, 18 21, 22, 23, 24, 25, 28, 29, 30, and 31; Nov. 1, 4, 5, 6, 7, 8, 12, 13, 14, 15, 21, and 22; Dec. 2, 3, 4, 5, 6, 9, and 10, 1963.
Date reported by Senate Committee on Finance-----	Jan. 28, 1964.
Senate report number-----	S. Rept. 830 (with separate views).
(Supplemental report, pt. 2 of S. Rept. 830, filed on Jan. 31, 1964.)	
Dates of Senate floor debate-----	Jan. 31; Feb. 3, 4, 5, and 6, 1964.
Date bill passed the Senate-----	Feb. 7, 1964.
Final passage: Passed by a record vote—77 yeas, 21 nays.	
Date conference report filed-----	Feb. 24, 1964.
Conference report number-----	Rept No. 1149.
Date conference report presented to and adopted by House of Representatives-----	Feb. 25, 1964.
Vote: 326 yeas, 83 nays.	
Date conference report presented to and adopted by the Senate-----	Feb. 26, 1964
Vote: 74 yeas, 19 nays.	
Date signed by the President-----	Do.
Public law number-----	Public Law 88-272.

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)

A. HOUSE FLOOR DEBATE ON BILL

Members of the House

	Page Nos. (of this document)
Abernethy, Thomas G. (Mississippi)-----	1424, 1571
Alger, Bruce (Texas)-----	1482, 1495
Anderson, John B. (Illinois)-----	1555
Ashbrook, John M. (Ohio)-----	1571
Baker, Howard H. (Tennessee)-----	1446, 1448, 1449
Baldwin, John F. (California)-----	1511
Barrett, William A. (Pennsylvania)-----	1442
Barry, Robert R. (New York)-----	1538
Becker, Frank J. (New York)-----	1514, 1516
Bennett, Charles E. (Florida)-----	1534
Berry, E. Y. (South Dakota)-----	1524
Betts, Jackson E. (Ohio)-----	1471
Boggs, Hale (Louisiana)-----	1488, 1489, 1492, 1603
Boland, Edward P. (Massachusetts)-----	1479
Bolling, Richard (Missouri)-----	1417, 1418, 1422, 1425
Bow, Frank T. (Ohio)-----	1593
Brown, Clarence J. (Ohio)-----	1418, 1419
Broyhill, James T. (North Carolina)-----	1533
Burke, James A. (Massachusetts)-----	1474, 1547
Burleson, Omar (Texas)-----	1594
Byrne, James A. (Pennsylvania)-----	1523
Byrnes, John W. (Wisconsin)-----	1437, 1440, 1463, 1465, 1469, 1471, 1487, 1489, 1492, 1495, 1506, 1569, 1570, 1587, 1589, 1591, 1592, 1593, 1608, 1609, 1610, 1615, 1616, 1617, 1618, 1619, 1620, 1622, 1624
Cannon, Clarence (Missouri)-----	1586, 1587
Chelf, Frank (Kentucky)-----	1602
Clausen, Don H. (California)-----	1578
Cohelan, Jeffery (California)-----	1557
Collier, Harold R. (Illinois)-----	1584, 1585
Colmer, William M. (Mississippi)-----	1422
Conte, Silvio O. (Massachusetts)-----	1510
Curtis, Thomas B. (Missouri)-----	1418, 1437, 1440, 1441, 1442, 1572, 1576, 1577, 1578, 1579, 1580, 1584
Derounian, Steven B. (New York)-----	1504, 1512, 1514, 1516
Donohue, Harold D. (Massachusetts)-----	1554
Edmondson, Ed (Oklahoma)-----	1602
Evins, Joe L. (Tennessee)-----	1475
Findley, Paul (Illinois)-----	1556
Fino, Paul A. (New York)-----	1572, 1576
Ford, Gerald R. (Michigan)-----	1572, 1573
Foreman, Ed (Texas)-----	1589
Fulton, James G. (Pennsylvania)-----	1425
Fuqua, Don (Florida)-----	1522
Glenn, Milton W. (New Jersey)-----	1558
Gonzalez, Henry B. (Texas)-----	1484, 1559
Goodell, Charles E. (New York)-----	1551
Gray, Kenneth J. (Illinois)-----	1598
Griffiths, Martha W. (Michigan)-----	1449
Gross, H. R. (Iowa)-----	1446, 1591

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Members of the House—Continued</i>		Page Nos. (of this document)
Hall, Durward G. (Missouri).....		1470
Halleck, Charles A. (Indiana).....	1441, 1442, 1574, 1575, 1608,	1615
Halpern, Seymour (New York).....		1525
Harvey, Ralph (Indiana).....		1539
Herlong, A. S., Jr. (Florida).....	1566, 1569,	1570
Hoeven, Charles B. (Iowa).....		1585
Jensen, Ben F. (Iowa).....		1570
Joelson, Charles S. (New Jersey).....	1522,	1598
Jonas, Charles Raper (North Carolina).....		1592
Jones, Paul C. (Missouri).....	1442,	1477
Keogh, Eugene J. (New York).....	1442,	1443
King, Cecil R. (California).....		1541
Knox, Victor A. (Michigan).....	1463,	1465
Laird, Melvin R. (Wisconsin).....		1519
Langen, Odin (Minnesota).....		1539
Lindsay, John V. (New York).....		1553
McClory, Robert (Illinois).....		1577
McCormack, John W. (Massachusetts).....		1607
McLoskey, Robert T. (Illinois).....		1534
Mahon, George H. (Texas).....	1573, 1574, 1575,	1584
Meador, George (Michigan).....	1569,	1570
Mills, Wilbur D. (Arkansas).....		1417,
	1426, 1449, 1467, 1469, 1475, 1477, 1478, 1481, 1487, 1488,	1504,
	1516, 1566, 1571, 1573, 1586, 1587, 1588, 1591, 1594, 1595, 1597,	
	1598, 1599, 1600, 1602, 1606, 1607, 1610, 1616, 1617, 1618, 1619,	
	1620, 1621, 1622.	
Moorhead, William S. (Pennsylvania).....		1606
Murphy, John M. (New York).....		1535
O'Brien, Leo W. (New York).....		1518
O'Neill, Thomas P., Jr. (Massachusetts).....		1419
Pelly, Thomas M. (Washington).....	1485,	1517
Pucinski, Roman C. (Illinois).....		1563
Randall, Wm. J. (Missouri).....		1588
Robison, Howard W. (New York).....	1448, 1449,	1580
Rogers, Paul G. (Florida).....	1565, 1572,	1573
Roosevelt, James (California).....		1525
Roush, J. Edward (Indiana).....		1599
Schadeberg, Henry C. (Wisconsin).....		1579
Schneebeli, Herman T. (Pennsylvania).....		1466
Schwengel, Fred (Iowa).....		1506
Selden, Armistead I., Jr. (Alabama).....		1599
Short, Don L. (North Dakota).....		1528
Smith, Howard W. (Virginia).....		1505
Smith, Neal (Iowa).....	1417, 1418, 1469,	1601
Snyder, M. G. (Gene) (Kentucky).....		1580
Staggers, Harley O. (West Virginia).....		1606
Steed, Tom (Oklahoma).....		1603
Stinson, K. W. (Bill) (Washington).....		1610
Thompson, Clark W. (Texas).....		1597
Udall, Morris K. (Arizona).....		1516
Ullman, Al (Oregon).....	1467, 1469,	1537
Utt, James B. (California).....	1510, 1511,	1512
Vanik, Charles A. (Ohio).....		1478
Van Pelt, William K. (Wisconsin).....		1487
Watson, Albert W. (South Carolina).....		1536
Wharton, J. Ernest (New York).....		1534
Whitten, Jamie L. (Mississippi).....		1595
Williams, John Bell (Mississippi).....		1564
Wilson, Earl (Indiana).....		1576
Wright, Jim (Texas).....		1602

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

B. SENATE FLOOR DEBATE ON BILL

Subject and Members of the Senate

Page Nos.
(of this
document)

General debate on the bill, adoption of Senate Committee on Finance amendments, and procedures to be followed during Senate debate-----	2799-2860, 3012-3018, 3232-3233, 3362-3364, 3383, 3489-3491, 3509-3543
Allott, Gordon (Colorado)	
Bartlett, E. L. (Bob) (Alaska)	
Brewster, Daniel B. (Maryland)	
Cannon, Howard W. (Nevada)	
Clark, Joseph S. (Pennsylvania)	
Dirksen, Everett McKinley (Illinois)	
Dominick, Peter H. (Colorado)	
Douglas, Paul H. (Illinois)	
Eastland, James O. (Mississippi)	
Ellender, Allen J. (Louisiana)	
Fong, Hiram L. (Hawaii)	
Fulbright, J. W. (Arkansas)	
Gore, Albert (Tennessee)	
Gruening, Ernest (Alaska)	
Hart, Philip A. (Michigan)	
Hruska, Roman L. (Nebraska)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Jordan, Len B. (Idaho)	
Keating, Kenneth B. (New York)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Pell, Claiborne (Rhode Island)	
Proxmire, William (Wisconsin)	
Randolph, Jennings (West Virginia)	
Ribicoff, Abraham A. (Connecticut)	
Smathers, George A. (Florida)	
Stennis, John (Mississippi)	
Talmadge, Herman E. (Georgia)	
Thurmond, Strom (South Carolina)	
Tower, John G. (Texas)	
Williams, Harrison A., Jr. (New Jersey)	
Williams, John J. (Delaware)	
Senate Finance Committee amendment to strike section 219, capital gains and losses, from the House-passed bill-----	2860-2884
Douglas, Paul H. (Illinois)	
Gore, Albert (Tennessee)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Ribicoff, Abraham A. (Connecticut)	
Smathers, George A. (Florida)	
Group term life insurance—exclusion (Senator Gore)-----	2884-2891
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Javits, Jacob K. (New York)	
Long, Russell B. (Louisiana)	
Ribicoff, Abraham A. (Connecticut)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>		Page Nos. (of this document)
Earned income of U.S. citizens abroad (Senator Gore)-----		2891-2907
Aiken, George D. (Vermont)		
Bennett, Wallace F. (Utah)		
Byrd, Harry Flood (Virginia)		
Clark, Joseph S. (Pennsylvania)		
Curtis, Carl T. (Nebraska)		
Douglas, Paul H. (Illinois)		
Gore, Albert (Tennessee)		
Gruening, Ernest (Alaska)		
Holland, Spessard L. (Florida)		
Jordan, B. Everett (North Carolina)		
Lausche, Frank J. (Ohio)		
Long, Russell B. (Louisiana)		
Tax credit for higher education (Senator Ribicoff)-----	2907-2994, 3065-3066	
Aiken, George D. (Vermont)		
Anderson, Clinton P. (New Mexico)		
Beall, J. Glenn (Maryland)		
Bennett, Wallace F. (Utah)		
Brewster, Daniel B. (Maryland)		
Carlson, Frank (Kansas)		
Clark, Joseph S. (Pennsylvania)		
Cooper, John Sherman (Kentucky)		
Cotton, Norris (New Hampshire)		
Curtis, Carl T. (Nebraska)		
Dodd, Thomas J. (Connecticut)		
Dominick, Peter H. (Colorado)		
Edmondson, J. Howard (Oklahoma)		
Fulbright, J. W. (Arkansas)		
Gore, Albert (Tennessee)		
Hart, Philip A. (Michigan)		
Hartke, Vance (Indiana)		
Keating, Kenneth B. (New York)		
Lausche, Frank J. (Ohio)		
Long, Russell B. (Louisiana)		
McCarthy, Eugene J. (Minnesota)		
McGee, Gale W. (Wyoming)		
McIntyre, Thomas J. (New Hampshire)		
Mansfield, Mike (Montana)		
Miller, Jack R. (Iowa)		
Morse, Wayne (Oregon)		
Morton, Thruston B. (Kentucky)		
Muskie, Edmund S. (Maine)		
Pastore, John O. (Rhode Island)		
Prouty, Winston L. (Vermont)		
Randolph, Jennings (West Virginia)		
Ribicoff, Abraham A. (Connecticut)		
Scott, Hugh (Pennsylvania)		
Smathers, George A. (Florida)		
Symington, Stuart (Missouri)		
Tower, John G. (Texas)		
Williams, John J. (Delaware)		
Young, Milton R. (North Dakota)		
Tax deduction for higher education (Senator Prouty)-----	2994-3012, 3018-3022	
Aiken, George D. (Vermont)		
Anderson, Clinton P. (New Mexico)		
Clark, Joseph S. (Pennsylvania)		
Cooper, John Sherman (Kentucky)		
Dominick, Peter H. (Colorado)		
Gruening, Ernest (Alaska)		
Holland, Spessard L. (Florida)		
Javits, Jacob K. (New York)		

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Tax deduction, etc. (Senator Prouty)—Continued

Kuchel, Thomas H. (California)
Long, Russell B. (Louisiana)
McCarthy, Eugene J. (Minnesota)
Mansfield, Mike (Montana)
Miller, Jack R. (Iowa)
Morse, Wayne (Oregon)
Pastore, John O. (Rhode Island)
Prouty, Winston L. (Vermont)
Ribicoff, Abraham A. (Connecticut)
Saltonstall, Leverett (Massachusetts)
Scott, Hugh (Pennsylvania)
Smathers, George A. (Florida)
Tower, John G. (Texas)
Williams, John J. (Delaware)

Personal exemptions (Senator Gore)----- 3022-3047

Anderson, Clinton P. (New Mexico)
Curtis, Carl T. (Nebraska)
Douglas, Paul H. (Illinois)
Ervin, Sam, Jr. (North Carolina)
Gore, Albert (Tennessee)
Gruening, Ernest (Alaska)
Hartke, Vance (Indiana)
Kuchel, Thomas H. (California)
Lausche, Frank J. (Ohio)
Long, Russell B. (Louisiana)
Mansfield, Mike (Montana)
Miller, Jack R. (Iowa)
Morton, Thruston B. (Kentucky)
Pastore, John O. (Rhode Island)
Proxmire, William (Wisconsin)
Smathers, George A. (Florida)

Minimum standard deduction (Senator Douglas)----- 3047-3051, 3085-3098

Aiken, George D. (Vermont)
Anderson, Clinton P. (New Mexico)
Bennett, Wallace F. (Utah)
Douglas, Paul H. (Illinois)
Ervin, Sam J., Jr. (North Carolina)
Gruening, Ernest (Alaska)
Hruska, Roman L. (Nebraska)
Humphrey, Hubert H. (Minnesota)
Kuchel, Thomas H. (California)
Lausche, Frank J. (Ohio)
Long, Russell B. (Louisiana)
Mansfield, Mike (Montana)
Morton, Thruston B. (Kentucky)
Proxmire, William (Wisconsin)
Ribicoff, Abraham A. (Connecticut)
Smathers, George A. (Florida)

Excise tax—Cabarets (Senator Proxmire)----- 3051, 3440-3451

Bible, Alan (Nevada)
Carlson, Frank (Kansas)
Douglas, Paul H. (Illinois)
Fong, Hiram L. (Hawaii)
Gore, Albert (Tennessee)
Hart, Philip A. (Michigan)
Keating, Kenneth B. (New York)
Lausche, Frank J. (Ohio)
Long, Russell B. (Louisiana)
McNamara, Pat (Michigan)
Magnuson, Warren G. (Washington)

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Excise tax—Cabarets (Senator Proxmire)—Continued	
Mansfield, Mike (Montana)	
Morton, Thruston B. (Kentucky)	
Proxmire, William (Wisconsin)	
Simpson, Milward L. (Wyoming)	
Smathers, George A. (Florida)	
Dividend credit (Senators Morton and Dirksen)-----	3051-3065, 3212-3215
Beall, J. Glenn (Maryland)	
Carlson, Frank (Kansas)	
Curtis, Carl T. (Nebraska)	
Holland, Spessard L. (Florida)	
Hruska, Roman L. (Nebraska)	
Kuchel, Thomas H. (California)	
McCarthy, Eugene J. (Minnesota)	
Mansfield, Mike (Montana)	
Morton, Thruston B. (Kentucky)	
Pastore, John O. (Rhode Island)	
Investment credit—Regulatory agencies-----	3066-3079, 3125-3212, 3230-3231, 3354-3359
Aiken, George D. (Vermont)	
Anderson, Clinton P. (New Mexico)	
Carlson, Frank (Kansas)	
Church, Frank (Idaho)	
Cooper, John Sherman (Kentucky)	
Douglas, Paul H. (Illinois)	
Gore, Albert (Tennessee)	
Gruening, Ernest (Alaska)	
Humphrey, Hubert H. (Minnesota)	
Javits, Jacob K. (New York)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
McClellan, John L. (Arkansas)	
McGovern, George (South Dakota)	
McNamara, Pat (Michigan)	
Magnuson, Warren G. (Washington)	
Mansfield, Mike (Montana)	
Metcalf, Lee (Montana)	
Miller, Jack R. (Iowa)	
Monroney, A. S. Mike (Oklahoma)	
Morse, Wayne (Oregon)	
Morton, Thruston B. (Kentucky)	
Nelson, Gaylord (Wisconsin)	
Pastore, John O. (Rhode Island)	
Pell, Claiborne (Rhode Island)	
Proxmire, William (Wisconsin)	
Saltonstall, Leverett (Massachusetts)	
Simpson, Milward L. (Wyoming)	
Smathers, George A. (Florida)	
Symington, Stuart (Missouri)	
Talmadge, Herman E. (Georgia)	
Tower, John G. (Texas)	
Williams, John J. (Delaware)	
Additional exemption for blind dependent (Senator Hartke)-----	3081-3083
Anderson, Clinton P. (New Mexico)	
Hartke, Vance (Indiana)	
Mansfield, Mike (Montana)	
Randolph, Jennings (West Virginia)	
Premiums for flood insurance (Senator Carlson)-----	3083-3085
Anderson, Clinton P. (New Mexico)	
Carlson, Frank (Kansas)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Excise tax—Jewelry, furs, toilet preparations, and luggage (Senators Morton and Dirksen)-----	3089-3125
Allott, Gordon (Colorado) Beall, J. Glenn (Maryland) Bennett, Wallace F. (Utah) Byrd, Harry Flood (Virginia) Carlson, Frank (Kansas) Curtis, Carl T. (Nebraska) Douglas, Paul H. (Illinois) Fulbright, J. W. (Arkansas) Gore, Albert (Tennessee) Hartke, Vance (Indiana) Hruska, Roman L. (Nebraska) Humphrey, Hubert H. (Minnesota) Javits, Jacob K. (New York) Lausche, Frank J. (Ohio) Long, Russell B. (Louisiana) McCarthy, Eugene J. (Minnesota) Magnuson, Warren G. (Washington) Mansfield, Mike (Montana) Morse, Wayne (Oregon) Morton, Thruston B. (Kentucky) Pastore, John O. (Rhode Island) Proxmire, William (Wisconsin) Simpson, Milward L. (Wyoming) Smathers, George A. (Florida)	
Excise tax—Mechanical pencils and pens (Senators Dirksen and Hickenlooper)-----	3216-3221
Aiken, George D. (Vermont) Anderson, Clinton P. (New Mexico) Bennett, Wallace F. (Utah) Carlson, Frank (Kansas) Hickenlooper, Bourke B. (Iowa) Humphrey, Hubert H. (Minnesota) Mansfield, Mike (Montana) Ribicoff, Abraham A. (Connecticut) Scott, Hugh (Pennsylvania) Smathers, George A. (Florida) Sparkman, John (Alabama)	
Excise tax—Musical instruments (Senator Hartke)-----	3221-3222
Hartke, Vance (Indiana) Smathers, George A. (Florida)	
Head of household (Senator McCarthy)-----	3222-3227, 3233-3248
Anderson, Clinton P. (New Mexico) Carlson, Frank (Kansas) Clark, Joseph S. (Pennsylvania) Eastland, James O. (Mississippi) Gruening, Ernest (Alaska) Javits, Jacob K. (New York) Keating, Kenneth B. (New York) Long, Russell B. (Louisiana) McCarthy, Eugene J. (Minnesota) Mansfield, Mike (Montana) Miller, Jack R. (Iowa) Morton, Thruston B. (Kentucky) Neuberger, Maurine B. (Oregon) Pastore, John O. (Rhode Island) Randolph, Jennings (West Virginia) Robertson, A. Willis (Virginia) Smathers, George A. (Florida)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Percentage depletion rates for oil and gas wells; three-step reduction in (Senator Williams of Delaware)-----	3248-3303
Aiken, George D. (Vermont) Allott, Gordon (Colorado) Anderson, Clinton P. (New Mexico) Carlson, Frank (Kansas) Dominick, Peter H. (Colorado) Edmondson, J. Howard (Oklahoma) Javits, Jacob K. (New York) Lausche, Frank J. (Ohio) Long, Russell B. (Louisiana) McGee, Gale W. (Wyoming) Mechem, Edwin L. (New Mexico) Miller, Jack R. (Iowa) Monroney, A. S. Mike (Oklahoma) Pearson, James B. (Kansas) Proxmire, William (Wisconsin) Randolph, Jennings (West Virginia) Simpson, Milward L. (Wyoming) Stennis, John (Mississippi) Tower, John G. (Texas) Williams, John J. (Delaware) Young, Stephen M. (Ohio)	
Excise tax—Tickets to live dramatic or musical performances (Senator Javits)-----	3303-3317
Anderson, Clinton P. (New Mexico) Javits, Jacob K. (New York) Long, Russell B. (Louisiana) Morton, Thruston B. (Kentucky) Smathers, George A. (Florida)	
Percentage depletion rates for oil and gas wells; reduction in (Senator Douglas)-----	3317-3354
Anderson, Clinton P. (New Mexico) Carlson, Frank (Kansas) Clark, Joseph S. (Pennsylvania) Douglas, Paul H. (Illinois) Edmondson, J. Howard (Oklahoma) Gore, Albert (Tennessee) Long, Russell B. (Louisiana) McGee, Gale W. (Wyoming) Monroney, A. S. Mike (Oklahoma) Proxmire, William (Wisconsin) Randolph, Jennings (West Virginia) Simpson, Milward L. (Wyoming) Talmadge, Herman E. (Georgia)	
Wage continuation payments (Senator McCarthy)-----	3359-3361
Humphrey, Hubert H. (Minnesota) Keating, Kenneth B. (New York) McCarthy, Eugene J. (Minnesota) Morton, Thruston B. (Kentucky) Smathers, George A. (Florida)	
Excise tax—Purses and handbags (Senator Keating)-----	3361, 3364-3367
Allott, Gordon (Colorado) Javits, Jacob K. (New York) Keating, Kenneth B. (New York) Long, Russell B. (Louisiana) Morton, Thruston B. (Kentucky) Smathers, George A. (Florida) Williams, John J. (Delaware)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Subject and Members of the Senate—Continued

Page Nos.
(of this
document)

Deduction to lessee of residential land of certain real property tax paid by him (Senator Fong)-----	3367-3369
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Byrd, Harry Flood (Virginia)	
Carlson, Frank (Kansas)	
Fong, Hiram L. (Hawaii)	
Long, Russell B. (Louisiana)	
Williams, John J. (Delaware)	
Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds (Senator Williams of Delaware)-----	3369-3377
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McCarthy, Eugene J. (Minnesota)	
Williams, John J. (Delaware)	
Investment credit; adjustment of basis under (Senator Proxmire)---	3377-3382
Aiken, George D. (Vermont)	
Anderson, Clinton P. (New Mexico)	
Bennett, Wallace F. (Utah)	
Carlson, Frank (Kansas)	
Ervin, Sam J., Jr. (North Carolina)	
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Pastore, John O. (Rhode Island)	
Proxmire, William (Wisconsin)	
Smathers, George A. (Florida)	
Restricted stock options; termination of preferential tax treatment (Senator Gore)-----	3382-3410, 3420-3435, 3451-3453
Bennett, Wallace F. (Utah)	
Gore, Albert (Tennessee)	
Hart, Philip A. (Michigan)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Kuchel, Thomas H. (California)	
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Pastore, John O. (Rhode Island)	
Smathers, George A. (Florida)	
Deduction—Losses of personal residences seized by Cuba (Senator Williams of Delaware)-----	3411-3412
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Extension of time for payment of estate tax on value of reversionary or remainder interest in property (Senator Smathers)-----	3412-3413
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Credit or refund of self-employment tax (Senator Kuchel)-----	3413-3415
Gore, Albert (Tennessee)	
Kuchel, Thomas H. (California)	
Technical amendments-----	3411, 3415-3418, 3453, 3488
Bennett, Wallace F. (Utah)	
Carlson, Frank (Kansas)	
Javits, Jacob K. (New York)	
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>	Page Nos. (of this document)
Group term insurance (Senator Long)-----	3418
Gore, Albert (Tennessee)	
Long, Russell B. (Louisiana)	
Smathers, George A. (Florida)	
Crop insurance proceeds (Senator Williams of Delaware)-----	3418-3420
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Williams, John J. (Delaware)	
Excise tax—Rebuilt automotive parts (Senator Dirksen)-----	3435-3438
Carlson, Frank (Kansas)	
Long, Russell B. (Louisiana)	
Capital loss carryover—Individuals (Senator Dirksen)-----	3438-3440
Long, Russell B. (Louisiana)	
Morton, Thruston B. (Kentucky)	
Smathers, George A. (Florida)	
Termination of tax reduction (Senator McClellan)-----	3367, 3453-3482
Aiken, George D. (Vermont)	
Cotton, Norris (New Hampshire)	
Dominick, Peter H. (Colorado)	
Ervin, Sam J., Jr. (North Carolina)	
Gruening, Ernest (Alaska)	
Hruska, Roman L. (Nebraska)	
Javits, Jacob K. (New York)	
Kuchel, Thomas H. (California)	
Lausche, Frank J. (Ohio)	
Long, Russell B. (Louisiana)	
McClellan, John L. (Arkansas)	
Mansfield, Mike (Montana)	
Miller, Jack R. (Iowa)	
Morton, Thruston B. (Kentucky)	
Mundt, Karl E. (South Dakota)	
Pastore, John O. (Rhode Island)	
Smathers, George A. (Florida)	
Thurmond, Strom (South Carolina)	
Williams, John J. (Delaware)	
Small business amendments (Senator Sparkman)-----	3482-3486
Long, Russell B. (Louisiana)	
Randolph, Jennings (West Virginia)	
Saltonstall, Leverett (Massachusetts)	
Sparkman, John (Alabama)	
Deduction for expenses of transportation of disabled individuals (Senator Sparkman)-----	3486-3487
Anderson, Clinton P. (New Mexico)	
Johnston, Olin D. (South Carolina)	
Keating, Kenneth B. (New York)	
Smathers, George A. (Florida)	
Sparkman, John (Alabama)	
Time for filing claim for refund of taxes paid for gasoline used on farms (Senator Young of North Dakota)-----	3487-3488
Smathers, George A. (Florida)	
Williams, John J. (Delaware)	
Excise tax—Certain silver-plated hollowware (Senator Saltonstall)----	3488-3489, 3499-3501, 3508-3509
Dodd, Thomas J. (Connecticut)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
Pastore, John O. (Rhode Island)	
Pell, Claiborne (Rhode Island)	
Ribicoff, Abraham A. (Connecticut)	
Saltonstall, Leverett (Massachusetts)	

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

<i>Subject and Members of the Senate—Continued</i>	Page Nos. (of this document)
Corporations improperly accumulating surplus (Senator Miller)	3491-3492
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Estate and gift tax treatment of employees' survivors annuities under State and local retirement systems (Senator Yarborough)	3492-3495
Bartlett, E. L. (Bob) (Alaska)	
Long, Russell B. (Louisiana)	
Yarborough, Ralph W. (Texas)	
Amortization of housing facilities for agricultural workers (Senator Williams of New Jersey)	3495-3499
Byrd, Harry Flood (Virginia)	
Williams, Harrison A., Jr. (New Jersey)	
Multiple corporations (Senator Miller)	3501-3502
Long, Russell B. (Louisiana)	
Miller, Jack R. (Iowa)	
Water or air pollution (Senator Ribicoff)	3502-3508
Bartlett, E. L. (Bob) (Alaska)	
Hart, Philip A. (Michigan)	
Javits, Jacob K. (New York)	
Keating, Kenneth B. (New York)	
Long, Russell B. (Louisiana)	
Muskie, Edmund S. (Maine)	
Pastore, John O. (Rhode Island)	
Pell, Claiborne (Rhode Island)	
Randolph, Jennings (West Virginia)	
Ribicoff, Abraham A. (Connecticut)	
Saltonstall, Leverett (Massachusetts)	
Smathers, George A. (Florida)	

C. HOUSE FLOOR DEBATE ON CONFERENCE REPORT

Members of the House

Alger, Bruce (Texas)	4197
Becker, Frank J. (New York)	4183-4184, 4186
Betts, Jackson E. (Ohio)	4191
Bray, William G. (Indiana)	4190-4191
Broyhill, Joel T. (Virginia)	4182-4183
Byrnes, John W. (Wisconsin)	4182, 4183-4186
Chamberlain, Charles E. (Michigan)	4194-4195
Curtis, Thomas B. (Missouri)	4179-4181
Donohue, Harold D. (Massachusetts)	4195
Fino, Paul A. (New York)	4192-4193
Gray, Kenneth J. (Illinois)	4189-4190
Griffiths, Martha W. (Michigan)	4150-4151
Gross, H. R. (Iowa)	4178
Halleck, Charles A. (Indiana)	4150
Jones, Paul C. (Missouri)	4178
Knox, Victor A. (Michigan)	4152, 4181-4182
Laird, Melvin R. (Wisconsin)	4178
Latta, Delbert L. (Ohio)	4195
Lennon, Alton (North Carolina)	4191
Libonati, Roland V. (Illinois)	4188-4189
Martin, Patrick Minor (California)	4188
Michel, Robert H. (Illinois)	4182
Mills, Wilbur D. (Arkansas)	4149-4182, 4184, 4188, 4198
Osmers, Frank C., Jr. (New Jersey)	4197
Patman, Wright (Texas)	4198
Phibin, Philip J. (Massachusetts)	4196-4197
Quie, Albert H. (Minnesota)	4193-4194
Schwengel, Fred (Iowa)	4191
Smith, Neal (Iowa)	4193

ALPHABETICAL LISTING OF MEMBERS OF CONGRESS WITH CROSS-REFERENCES TO FLOOR DEBATES (IN- CLUDING EXTENSION OF REMARKS)—Continued

Members of the House—Continued

Page Nos.
(of this
document)

Stratton, Samuel S. (New York)-----	4185, 4186
Taft, Robert, Jr. (Ohio)-----	4194
Vanik, Charles A. (Ohio)-----	4151-4152
Wyman, Louis C. (New Hampshire)-----	4186-4188

D. SENATE FLOOR DEBATE ON CONFERENCE REPORT

Members of the Senate

Beall, J. Glenn (Maryland)-----	4213-4214
Carlson, Frank (Kansas)-----	4212, 4215-4216
Curtis, Carl T. (Nebraska)-----	4235
Dirksen, Everett McKinley (Illinois)-----	4221-4223
Gore, Albert (Tennessee)-----	4204, 4211, 4218-4221, 4223
Humphrey, Hubert H. (Minnesota)-----	4236
Johnston, Olin D. (South Carolina)-----	4213
Kuchel, Thomas H. (California)-----	4236
Long, Russell B. (Louisiana)-----	4203-4215, 4220, 4221, 4222-4225, 4226-4229
McClellan, John L. (Arkansas)-----	4216-4218
Mansfield, Mike (Montana)-----	4235, 4236
Miller, Jack R. (Iowa)-----	4225-4230
Neuberger, Maurine B. (Oregon)-----	4236
Randolph, Jennings (West Virginia)-----	4214-4215
Smathers, George A. (Florida)-----	4230-4235
Sparkman, John (Alabama)-----	4212-4213

(XX)

SECTION 10
BRIEF SUMMARY OF PRINCIPAL PROVISIONS OF
H.R. 8363 "THE REVENUE ACT OF 1963"

1407

BRIEF SUMMARY OF
PRINCIPAL PROVISIONS OF H.R. 8363
“THE REVENUE ACT OF 1963”

PREPARED FOR THE GENERAL INFORMATION OF MEMBERS
OF THE HOUSE. FOR A DETAILED EXPLANATION OF THE
BILL, REFERENCE SHOULD BE MADE TO THE COMMITTEE
REPORT TO ACCOMPANY H.R. 8363 (H. REPT. 749, 88TH CONG.)



SEPTEMBER 13, 1963

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SUMMARY OF H.R. 8363, THE “REVENUE ACT OF 1963”

A. RATE REDUCTIONS

1. Individuals

Under the bill individual income tax rates are reduced from the present rates of 20 to 91 percent to rates ranging from 14 to 70 percent in 1965. Rates ranging from 16 to 77 percent make about two-thirds of this reduction available for 1964. Closely related to the individual income tax rate reduction is the minimum standard deduction of \$300 for the first exemption and \$100 for each additional exemption, up to a maximum of \$1,000, provided by the bill which, in effect sets an income floor. Individuals with income levels below the specified amounts will have no income tax payments to make.

2. Corporations

The tax rate for corporations in 1964 is reduced from 52 to 50 percent and is further reduced in 1965 to 48 percent. In addition, the rate applicable to the first \$25,000 of corporate income in 1964 is reduced from 30 percent to 22 percent. Furthermore, corporations are placed on a full pay-as-you-go basis so that ultimately all of their tax liability above \$100,000 is to be payable in the year in which it is earned. This is achieved over a 7-year period so that it will not increase corporate tax payments in the transitional period.

Tables showing these new rate schedules follow:

	Percent		
	Present law	1964	1965 and thereafter
1. Individuals: Range of rates.....	20-91	16-77	14-70
2. Corporations:			
Normal tax (applicable to all corporate taxable income).....	30	22	22
Surtax (applicable to income in excess of \$25,000).....	22	28	26
Total (combined) rate.....	52	50	48

B. STRUCTURAL CHANGES

In addition to the rate changes referred to above, the bill includes 23 sections providing structural changes in the tax laws.

The following represents a brief sketch of these structural changes:

1. *Repeal of dividend credit and doubling of dividend exclusion.*—The 4-percent dividend received credit is reduced by the bill to 2 percent for 1964, and repealed for subsequent years. The \$50-dividend exclusion is increased to \$100 (usually \$200 in the case of married couples) for 1964 and subsequent years.

2. *Investment credit.*—In the case of the investment credit, the bill (a) repeals the provision requiring a 7-percent downward adjustment in the basis of property eligible for depreciation to the extent that the

investment credit applies; (b) prevents regulatory commissions in certain cases from requiring the "flow through" of the benefits of the investment credit to the customers of regulated industries; and (c) makes other revisions in the investment credit.

3. *Group term insurance*.—The bill limits the employee exclusion for premiums on group term insurance furnished through the employer to premiums paid for the first \$30,000 of coverage; it also provides a special deduction for employees who are in effect part of paying someone else's insurance costs in the case of coverage above \$30,000.

4. *Reimbursed medical expenses*.—The bill includes in gross income reimbursed medical expenses to the extent the reimbursement exceeds the actual medical expenses incurred with respect to the illness or accident.

5. *Sick pay exclusion*.—The bill restricts the sick pay exclusion, of up to \$100 a week, to those who are out of work for more than 30 days (and makes the exclusion available only for the period beyond that time).

6. *Sale of residence by aged taxpayer*.—The bill provides an exclusion from the tax base the gain on up to \$20,000 of the sales price of a personal residence in the case of an individual aged 65 or over.

7. *Deduction of certain State and local taxes*.—The bill denies a deduction in computing income subject to Federal tax for State and local taxes other than property, income, and general sales taxes (the principal taxes for which a deduction is denied are gasoline, auto license, alcoholic beverage, cigarette, and selected excise taxes).

8. *Casualty loss deduction*.—The deduction for personal casualty and theft losses is limited to the amount in excess of \$100 per loss (similar to \$100 deductible insurance).

9. *Charitable contribution deduction*.—Several changes are made in the charitable contribution deduction: (a) The 30-percent maximum deduction is made available generally to organizations other than private foundations; (b) the 2-year carryover of charitable contributions for corporations is extended to 5 years; and (c) charitable contributions deductions for future interests in tangible personal property are denied until the gifts are completed except where the property is retained for the life or lives of the donor or donors.

10. *Medical expense deduction*.—The 1-percent limitation, or floor, on medicines and drugs which may be taken into account in determining deductible medical expenses is made inapplicable where the taxpayer and his wife are over 65 and also to their parents where they are over 65.

11. *Child-care expense deduction*.—The child-care deduction is revised: (a) to make it available in the case of a wife who is "institutionalized" or "incapacitated"; (b) to make it available with respect to care for children up to age 13 (instead of 12); and (c) the maximum deduction allowable where there are two or more children is increased from \$600 to \$900.

12. *Employee moving expenses*.—A deduction for certain moving expenses—transportation of the household goods and the persons involved, and also their meals and lodging while in transit—is allowed for those who are not reimbursed for these expenses and also for new employees (an exclusion for these items is already available in the case of old employees who are reimbursed).

13. *Bank loan insurance*.—An interest deduction is denied for amounts borrowed under a systematic plan to pay premiums on life insurance (certain exceptions are provided).

14. *Stock options*.—The present tax treatment of employee stock options is further restricted, the principal additional restrictions being that (a) the stock when acquired must be held for 3 years or more; (b) the option must not be for a period of more than 5 years; (c) the option price must at least equal the market price of the stock when issued; (d) stockholders' approval for the options must be obtained; and (e) the extent to which new options may be exercised when the old options are outstanding is restricted. Separate tax treatment is provided for employee stock purchase plans which are available to all employees on a nondiscriminatory basis under rules which are substantially the same as under present law.

15. *Interest on certain deferred payments*.—Where property is sold on an installment basis and either no, or very low, interest is charged on the installments, the bill provides that an appropriate amount of each installment is to be treated as if it were an interest payment.

16. *Personal holding companies*.—The tax treatment of personal holding companies is made considerably more restrictive. For example, the percentage of passive income which may result in a company being classified as a personal holding company is reduced from 80 to 60 percent and amendments are made so that the tax cannot be avoided by using rental or oil or gas or mineral royalties (or working interests) to shelter substantial amounts of investment income, such as dividends and interest, from the personal holding company tax. A number of other restrictive amendments are also made. On the other hand, relief is provided for those companies which are not now personal holding companies, but which would be under the new definitions. They are permitted favorable liquidation treatment in certain cases and also permitted a deduction, in computing the personal holding company income, for paying off existing debts. An amendment is also added relating to foreign personal holding companies permitting an increase in the basis of the stock of such a company at the time of the shareholder's death for death taxes attributable to the appreciation in such stock. A similar increase in basis is allowed in the case of property representing distributions from such a company, under certain conditions.

17. *Aggregation of oil and gas properties*.—For the future, oil and gas leases or acquisitions are no longer to be aggregated in determining what constitutes a property for purposes of computing the percentage depletion deduction.

18. *Iron ore royalties*.—The bill provides capital gains treatment for iron ore royalty payments.

19. *Taxation of capital gains—Holding period, alternative rate, etc.*—The present capital gains treatment for individuals is revised by the bill so that in the case of most assets held more than 2 years, 40 percent (rather than 50 percent) of the gain will be included in the tax base and the alternative rate of tax on this is to be 21 percent (rather than 25 percent). Certain types of income given capital gains treatment today which are not actually capital gains will continue to be treated as they are today (50 percent inclusion, 25 percent alternative rate). The bill also provides an unlimited (instead of 5-year) carry-over of capital losses in the case of individuals.

20. *Sale or exchange of depreciable real estate.*—In the case of real estate sold at a gain in the future, depreciation deductions, generally to the extent these deductions exceed depreciation allowable under the “straight line” method (to the extent of the gain), will be treated by the bill as giving rise to ordinary income. However, in the case of property held more than 20 months the amount treated as ordinary income will be reduced by 1 percent for each month of holding over 20, with the result that no amount will be treated as ordinary income in the case of real property held more than 10 years.

21. *Averaging of income.*—The bill in effect provides for the averaging of income over a 5-year period where the income in the current year exceeds the average of the 4 prior years by more than one-third and this excess equals at least \$3,000.

22. *Repeal of penalty tax on consolidated returns.*—The 2-percent penalty tax, which must presently be paid by corporations for the privilege of filing consolidated returns, is repealed.

23. *Multiple surtax exemptions.*—For corporations where there is common control to the extent of 80 percent or more, the corporations involved generally are limited to one \$25,000 surtax exemption for the group or alternatively required to pay a special tax of 6 percent on the first \$25,000 of their income. No penalty tax is imposed where a consolidated return is filed for the group.

C. REVENUE IMPACT

This bill over a 2-year period is expected to reduce revenues by \$11.1 billion—of which \$2.2 billion goes to corporations and \$8.9 billion to individuals. In the fiscal year 1964 this is expected to result in a revenue reduction of \$2.2 billion and in the fiscal year 1965 a reduction of \$7.4 billion (including the reduction in 1964). This is without regard to any stimulative effect these reductions may have. Taking into account the Treasury Department’s estimate of the stimulative effect, the bill is expected to reduce revenues by \$1.8 billion in the fiscal year 1964 and by \$3.5 billion in the fiscal year 1965.

SECTION 11
HOUSE FLOOR DEBATE
(Including Extension of Remarks)
(From the Daily Congressional Record)

[P. 16979]

AMENDING INTERNAL REVENUE
CODE OF 1954 TO REDUCE INDIVIDUAL AND CORPORATE INCOME
TAXES AND TO MAKE CERTAIN
STRUCTURAL CHANGES WITH RE-
SPECT TO INCOME TAX

Mr. BOLLING. Mr. Speaker, by direction of the Committee on Rules, I call up the resolution, House Resolution 527, and ask for its immediate consideration.

The Clerk read the resolution as follows:

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, and all points of order against said bill are hereby waived. After general debate, which shall be confined to the bill, and continue not to exceed eight hours, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Ways and Means, the bill shall be considered as having been read for amendment. No amendment shall be in order to said bill except amendments offered by direction of the Committee on Ways and Means. Amendments offered by direction of the Committee on Ways and Means may be offered to the bill at the conclusion of the general debate, but said amendments shall not be subject to amendment. At the conclusion of the considera-

[P. 16980]

tion of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

Mr. BOLLING. Mr. Speaker, I yield 30 minutes to the gentleman from Ohio [Mr. BROWN]; and pending that, I yield to myself such time as I may consume.

Mr. Speaker, the rule, as those who listened to its reading will know, is the rule usually provided when we consider a tax bill. It is a rule which waives points of order; provides a great deal of time for general debate—8 hours; and allows only committee amendments; and one motion to recommit with or without instructions.

This is the rule we have used for years regardless which party was in the majority in the House.

Mr. SMITH of Iowa. Mr. Speaker, will

the gentleman yield on that point just covered.

Mr. BOLLING. I yield to the gentleman from Iowa [Mr. SMITH].

Mr. SMITH of Iowa. In other words, no Member of this House can offer an amendment, as usual, except in the motion to recommit?

Mr. BOLLING. That is correct. Except that committee amendments are in order, as is usual.

Mr. SMITH of Iowa. So the most irresponsible or phoniest kind of amendment can be included in a motion to recommit, but individual Members who may have a good, sound amendment cannot propose it on the floor of the House?

Mr. BOLLING. That is correct.

Mr. SMITH of Iowa. What is the reason for this inconsistency time after time after time on these bills?

Mr. BOLLING. I think the gentleman will discover, if he looks back over the history of the House of Representatives, that there was a time a number of years ago when a bill, not a revenue bill but a tariff bill, came to the floor under an open rule. There were so many amendments, good or bad, offered by so many Members that finally, after 2 weeks of futile debate, the committee rose and went to the Committee on Rules and asked for a rule which would allow the Committee of the Whole to take a bill proposed by the Committee on Ways and Means, or reject it, giving to the minority the right to offer one motion to recommit which could be even a substitute. This was a practical experience which convinced a great many Members that the only way in which you could effectively handle a revenue bill or a tariff bill was in this fashion.

Mr. SMITH of Iowa. But although revenue bills originate in the House, in the Senate they can offer amendments, that is, any Member can—so in effect most revenue bills have been amended or written in the Senate. Is that not true?

Mr. BOLLING. I doubt that that would be accurate.

Mr. MILLS. Mr. Speaker, would my friend from Missouri yield?

Mr. BOLLING. I am glad to yield to the gentleman from Arkansas.

Mr. MILLS. It has not been the case certainly in the last several years, and I do not think it was ever the case that revenue bills were written in the Senate. The mere fact that the other body adopts an amendment does not necessarily mean that that amendment becomes the law.

Mr. SMITH of Iowa. I think the gentleman may agree, or may not, that this procedure is used to keep us from having

substantial amendments on this depletion allowance.

Mr. BOLLING. I think I have yielded as much as I intend to. I happen to share the gentleman's view with regard to depletion allowances, but the closed rule is not used for any single narrow purpose but is used for the reasons I have outlined. The fact is that most Members think, quite accurately, I believe, that if the House allowed unlimited amendments on a bill of this sort, we would get ourselves into very serious difficulty.

Mr. SMITH of Iowa. The gentleman will agree it is highly inconsistent, would he not?

Mr. BOLLING. I do not consider it inconsistent but merely a practical way to expedite the business of the House.

Mr. Speaker, the economic decision that the House will make when it acts on this tax bill will be one of the most significant ones ever made in this country. It involves our making a new approach to the problem of full employment and to the problem of how the Government can best play its role in economic matters. It is the kind of bill which should be debated on the highest level. It is the kind of bill on which there should be no partisanship. It is too important for partisanship. The bill which we write should have the best judgment of all the Members of the House. I have no objection to any position that anybody takes sincerely on my side or on the other side, but it seems to me very important that this debate should be on a high level. It is one of the reasons why I find myself so completely shocked by some of the language which appears in the minority report. I would like to call the attention of the Members of the House to this language.

Referring on page c26 to the repeal of the 4-percent dividend credit, this sentence appears. It is the last sentence in the second full paragraph on page c26:

The repeal of this provision epitomizes the demagogic approach which has been resorted to time and time again by the majority.

That report is signed by 9 of the 10 Republican members. The thing that particularly shocks me is that the names of two distinguished gentlemen appear as signatories of that report. It has never been my privilege to serve on a committee with the gentleman from Wisconsin, the ranking Republican member, the gentleman from Wisconsin [Mr. BYRNES], but I have listened to him in debate on many occasions and I have found him fair and, within the limits of

disagreement, objective. The thing that really shocks me—and I am not chiding my colleagues—the thing that really shocks me is the appearance of the name of another of our colleagues, a man with whom I have had the privilege to serve on the Joint Economic Committee for a very long time. He and I have disagreed consistently on virtually every economic principle. Often we have been in the position of my being chairman of a subcommittee and of his being the ranking minority member. This is the first time in my experience that he has ever allowed himself to be in the position of calling his colleagues on the other side demagogic.

Mr. CURTIS. Mr. Speaker, will the gentleman yield?

Mr. BOLLING. With pleasure.

Mr. CURTIS. Mr. Speaker, I want to call the gentleman's attention to the fact that this was to start on a high level; the language read refers to a specific approach. It did not call my colleagues demagogic. It refers to an approach to the dividend credit—and, indeed, I shall reiterate it during debate and try to document it. It is a specific approach. I do not say that about my colleagues. I have never referred to them as demagogues. The approach to this reform by the critics, in my judgment, has been to emotion not to basic reasoning.

Mr. BOLLING. I shall reread the sentence.

Mr. CURTIS. Yes.

Mr. BOLLING—

The repeal of this provision epitomizes demagogic approach which has been resorted to time and time again by the majority.

Mr. CURTIS. That is correct.

Mr. BOLLING. The question I would like to leave with the Members of the House on both sides is, Are we to understand that this is going to be debated in these terms; that, in effect, the chairman of the committee is being accused of using a demagogic approach time and time again. I cannot believe that the Members of the House want this debate at that level, and I hope that we will consider this matter in the way in which it should be considered, fairly and objectively and in the interest of all of us and all of the people of the country.

Mr. BROWN of Ohio. Mr. Speaker, I yield myself such time as I may consume.

(Mr. BROWN of Ohio asked and was given permission to revise and extend his remarks.)

Mr. BROWN of Ohio. Mr. Speaker, I am very happy to note that the debate on this rule has started off in a non-

political manner and in such form that I shall attempt to restrict myself to non-partisan statements.

Mr. O'NEILL. Mr. Speaker, will the gentleman yield?

Mr. BROWN of Ohio. I cannot yield until I have finished my statement, and then I shall be happy to yield to the distinguished gentleman from Massachusetts, my colleague on the Rules Committee.

Mr. Speaker, this resolution provides for the granting of a closed or "gag" rule for the consideration of H.R. 8363, the so-called administration-sponsored tax reduction bill, under an arrangement which provides for 8 hours of general debate. [P. 16981]

bate, but prohibits and prevents the offering or consideration of any amendments to the bill except upon instructions of the Ways and Means Committee itself, or except as contained in a motion to recommit under the right which is always reserved to the minority.

Naturally, I am opposed to the adoption of this closed or "gag" rule for obvious reasons, many of which I have stated on the floor in connection with similar rules in the past. Only once, years ago, did I support a closed or "gag" rule, as my dear and beloved friend and colleague, the chairman of the Ways and Means Committee, the gentleman from Arkansas [Mr. MILLS], so often loves to remind me. That was at a time when both of us were much younger and less experienced than we are now. As I look back, I am convinced that I made a mistake when I supported that "gag" rule those many years ago, but I at least console myself with the thought I have learned something through experience and the passage of time—whether anyone else has or not—and that is that a closed or "gag" rule is not a fair or proper way under which to consider legislation in a body such as this, which we so often boast is the most deliberative and representative body in all the world.

We should not permit dictatorship or bossism to exist in this House in connection with tax legislation any more than it be permitted to exist in connection with any other activity of a free and representative assembly.

Just as a matter of trying out the fairness of those who support this administration-sponsored tax bill, I suggested, in the Rules Committee meeting which considered the granting of a rule on this bill, that we follow the procedure the chairman of the Ways and Means Committee had followed in obtaining the rule a few weeks ago which brought to the

floor of the House the last bill from that committee to be considered here—the bill to amend the Social Security Act increasing the benefits or grants paid out of the general revenue funds of the Treasury to the various States to deal with mental retardation. In line with the gentleman from Arkansas [Mr. MILLS] request, the Rules Committee granted a modified rule permitting amendments to a certain section of the Social Security Act dealing with grants to the States for mental retardation purposes, and that rule was adopted by the House.

But, when I suggested last week that a similar rule be granted on the tax bill, making in order the consideration, under the 5-minute rule, of an amendment to the tax bill which had been defeated in the Ways and Means Committee itself by the margin of a single vote, so the House might work its will on the question involved as to whether some control over Federal spending should be tied to the tax reduction measure, my proposal was defeated by a straight party line vote.

So, we now have before us the question of adopting another closed or "gag" rule, which prohibits the offering or consideration of any amendment to this tax bill except as contained in one motion to recommit—despite the fact that when the bill reaches the floor of the other body, any Member thereof—the Senate of the United States—can offer any or all amendments he or she may desire, even though such amendments may not actually be germane, and may not even deal with any tax matter. So, I am opposed to the granting of this rule, although I know it will be adopted.

This does not mean I am opposed to tax reduction. In fact, I want to see Federal taxes reduced. I need to have my personal and my business taxes drastically reduced, for they have been entirely too high. Make no mistake about it, I know of no American who would not like to have lower Federal taxes. But I believe that if Federal taxes are to be reduced, and this Government is to remain solvent, Federal spending must also be reduced, for Federal spending has been entirely too high. This Government has been living on borrowed money far too long, until today our national debt is the highest in the peacetime history of this, or any other, nation, and it has been going up year by year with a regularity and rapidity that threatens eventual national bankruptcy unless the trend of deficit financing is soon stopped and reversed.

I agree fully with an editorial which appeared in the Washington Evening

Star of Thursday, September 19, and I quote from it. It reads:

There is one overriding reason why Congress should cut taxes and do it now. This reason simply stated is that the tax burden is much too heavy.

The country has been limping along under excessively high individual and corporate tax rates which were imposed as emergency wartime measures. The shooting stopped a long time ago. But the war-level taxes have lingered on, one excuse after another serving to perpetuate them. And if they are not cut back this year some new excuse for not reducing them will be dug up next year.

Representative BROWN conservative Republican from Ohio says he would feel better about a tax cut if Representative MILLS (who favors the proposed reduction) were President. What the Ohioan meant was that he would have more confidence in an assurance from Mr. MILLS who is chairman of the Ways and Means Committee that he would hold the line on spending. So would we. But Mr. MILLS is not President. John F. Kennedy is and he said of his administration last night: "We are pledged to a course of true fiscal responsibility leading to a balanced budget in a balanced full-employment economy."

This rather wordy pledge conveys less assurance than conservatives in Congress will want. And it is true that the President on the whole has done a better job of talking economy than of practicing it in his legislative recommendations.

Still, the compelling argument for a tax cut remains valid: taxes are so high that they are a drag on the economy. Congress ought to cut them this year. And the legislators really have no need to worry about extravagant spending by the administration. The President can't spend a nickel unless Congress first authorizes it.

I stand by what I said in the Rules Committee meeting as referred to in the editorial. I say now, as I said then, that I would have more confidence in an assurance from the gentleman from Arkansas [Mr. MILLS], chairman of the Ways and Means Committee, that he would hold the line on spending then I have in the statement made by President Kennedy when he said to the American people over the air, and I quote him again:

We are pledged to a course of true fiscal responsibility, leading to a balanced budget in a balanced, full-employment economy.

Now, Mr. Speaker, I have the greatest respect for the Presidency of the United States. I have personally known and served with President Kennedy in the Congress of the United States. Our relationships have been pleasant and kindiy. I have no quarrel with him as a person or as an individual. However, I cannot agree with all that he says or does as a public official any more than I am sure he does not agree with all that I may say or do in my official capacity. All that I can do is to look at the record, as I am

sure he looks at the record we make here.

We can only judge the future by the past. We can only ask ourselves—will President Kennedy, in the future, follow a course of true fiscal responsibility? Will he reduce Federal spending? Will he make every effort to balance the budget? Let us see what has happened and is happening, and just what the situation is today.

A few minutes ago, just before I took the floor, I left a meeting of the Rules Committee of this House, where we were conducting a hearing on a bill to extend the Area Redevelopment Act, to cost another \$355 million, in spite of the fact that in late June of this year—after long debate—this House, by a record vote, refused to extend the Area Redevelopment Act, or to authorize the expenditure of some \$455 million on the basis and under the belief the program had been a wasteful, inefficient, and ineffective one and should not be continued. Yet under pressure from the White House, and from the administration, the other body passed this bill—a bill to do that which the House had refused to do—to extend the Area Redevelopment Act and to authorize the expenditure of \$455 million thereunder. While the House Committee on Banking and Currency has cut the authorization carried in the Senate for area redevelopment from \$455 million down to \$355 million in an attempt to get the measure through the House, which, of course, is \$100 million less than the Senate proposes, it is still \$355 million more than should be spent.

So, if the President is sincere in his desire to hold down Federal spending—and I personally do not challenge his sincerity—let him demonstrate it by issuing public orders to those in his administration who have been so busy lobbying in behalf of this area redevelopment bill to stop such activities immediately. Let him order his White House aides to stay away from Capitol Hill, and to quit telephoning Members of the House in support of the passage of this huge expending measure. Let him impress upon those who serve under him in the executive department that he desires to hold down Federal spending so we can afford to have a reduction in Federal taxes without our Federal Treasury having to go out and borrow the money to

[P. 16982]

meet the cost thereof—money which will have to be paid back by future generations yet unborn.

What can it hurt to spell out in this tax reduction bill, as a part thereof a real pledge that the President and the Con-

gress will hold down Federal spending as well as reduce taxes?

But let us go into the record a little bit further. Let us take a look at things I know about, and that you who are listening and the American people generally should know about. Let us see just what big spending bills Mr. Kennedy and his administration have submitted to this Congress since last January—proposals to start costly new programs which may be enticing and enchanting; programs that are appealing; programs to furnish services and benefits which many of us would like to have, providing we can afford to pay for them. And that is the big question that confronts the Nation today—can we afford these big new costly spending programs when the money to be spent upon them must all be borrowed to be added to the national debt for future generations to pay. Let us look at these programs that have been sent to Capitol Hill, with the administration's blessing and support during the past 9 months. Some of them have been cleared by the Rules Committee, some of them have even passed the House, and few have cleared the Congress, but many of them are still pending before the Rules Committee, with administration forces urging the Rules Committee to send the bills to the floor of the House for early action. Let us see what the cost of these bills may be. I take my figures from the records of the House itself, or from the files of the Rules Committee.

First of all, there is H.R. 12 from the Interstate and Foreign Commerce Committee, the health professions assistance bill, a 5-year program which would cost \$602,570,000 for the first 5 years, and \$379,500,000 for the second 5 years, and that bill has passed the House.

Then there is H.R. 3881, sponsored by the administration, the so-called mass transit bill, out of Banking and Currency, which is still pending before the Rules Committee, with a starting cost of \$500 million and an estimated overall cost of anywhere from \$15 to \$20 billion, if the proposed program is carried out fully.

Then comes H.R. 5131, from the Education and Labor Committee, the so-called Youth Employment Act, which is still pending before the Rules Committee, providing for a 3-year program, supported by the administration, of course, to cost an estimated \$740 million.

Then I want to refer again to H.R. 4996, the Area Redevelopment Act, from the Banking and Currency Committee, which called for a 2-year program, to cost \$455 million, which was defeated last June; and the Senate bill, S. 1163, to do the same thing, to again extend the Area Redevelopment Act as I mentioned

a moment ago being heard right now before the Rules Committee to cost \$355 million during the next 2 years.

Then another nice, costly administration-sponsored measure, H.R. 6143, out of the Education and Labor Committee, the so-called higher education bill, which has already passed the House, establishes a 3-year program to cost \$1,195 million.

And another bill pending in the Rules Committee from the Education and Labor Committee, H.R. 7161, to train teachers and exceptional children over a 3-year period, would cost \$27 million, with the blessing, of course, of the administration.

Another administration-sponsored bill, H.R. 6518, out of the Interstate and Foreign Commerce Committee, known as the Clean Air Act, to start a new 3-year program, would cost \$85 million, has passed the House, and it, too, has the support of the administration.

Pending before the Rules Committee, but not yet acted upon, is H.R. 4879, another administration-sponsored bill, known as the Libraries Act, to establish a 3-year program, and cost \$112,500,000.

Then the House recently passed a bill from the Ways and Means Committee, with administration support, of course, H.R. 7544, to amend the Social Security Act so as to spend on a 5-year program some \$265 million in grants to the States for the benefit of retarded children. A somewhat similar bill, for the construction of facilities to treat mental illnesses and mental retardation, S. 1576, was amended by the House Interstate and Foreign Commerce Committee, and passed the House, to limit the administration-sponsored program to 3 years at a cost of \$238 million, while the bill, as it originally passed the Senate, with administration support, of course, set up a 5-year program for the same purposes to cost \$850 million.

Just a few weeks ago the House passed another administration-sponsored bill, the vocational education expansion bill—H.R. 4955—to authorize grants to the various States on a matching basis of some \$270 million during the next 3 fiscal years, and \$180 million for fiscal 1967 and each subsequent year thereafter, in addition to the \$57 million already being paid out by the Federal Government for the same purposes.

Just a little over a week ago while in the other body the administration was driving for the ratification of a treaty to ban nuclear tests; in the air and under water, on the basis that such an international agreement would greatly reduce or eliminate the dangers of nuclear fallout and would be a leading step toward peace, the House of Representatives was passing the administration-sponsored

civil defense bill to appropriate \$190,-600,000 for the first year of a new program to furnish aid for the construction of fallout shelters throughout the country as a part of a 5-year program—the total cost of which would run \$2,115 million.

Including H.R. 4996, which was defeated in the House, the total cost of these administration bills to the taxpayers of America—bills sponsored and supported by the Kennedy administration in this year of 1963—if the figures given me are correct, will be at least \$7,441,-570,000, if the provisions carried in the original Senate bill, S. 1576, for the expenditure of \$850 million on the program for the mentally ill and mentally retarded, are finally agreed upon by the House-Senate conferees, as may well be expected, and perhaps even more. This total of \$7,441,570,000 is in addition to, or above the total of other costs of operating the Federal Government.

These facts and figures, my colleagues, demonstrate the real need for adding some proper language to the pending tax reduction bill that will be more than a gentle promise or a pious hope that Federal spending will be reduced in line with the contemplated cut in Federal taxes. Such an amendment to this tax bill as may be offered as a part of the motion to recommit would be helpful to the President, and should be accepted by him gladly and willingly, so as to make his task easier, for its adoption would make the Congress his partner in an honest effort to hold down Federal spending to reasonable levels. We should all want to help the President accomplish this purpose, as he has indicated in his statement over the air that he would like to do and wants to do. The easier we can make it for him, the more help and the more strength we can give him, in reducing Federal expenditures, while at the same time we reduce Federal taxes, the better off we will all be—the President, the Congress, and the American people generally.

The time has come when we must stop this annual increase in Federal spending and try to hold the line. In fiscal 1960, in the last full year of the Eisenhower administration, Federal spending amounted to \$76,500 million. In fiscal 1961, a year about equally divided between the Eisenhower and the Kennedy administrations, total Federal spending was up \$5,000 million—to a total of \$81,500 million. In fiscal 1962, the first full year of the Kennedy administration, it had jumped \$6,300 million, to a total of \$87,800 million.

In fiscal 1963, under Kennedy, Federal spending had jumped to \$92,600 million;

by fiscal year 1964, the present fiscal year, the official spending estimate of the administration was \$98,000 million and for the coming new fiscal year of 1965, the administration estimates Federal spending will be \$99,900 million.

So, when Republican members of the Ways and Means Committee asked for an amendment to this pending tax bill, providing the President and the Congress pledge themselves to make every effort to hold public spending to \$97 billion for this fiscal year of 1964, and to \$98 billion for fiscal 1965, it is not asking too much. In fact, to permit Federal spending for this and for the next fiscal year to be over \$4 billion more than spent in fiscal 1963 which just ended June 30 last is not being stingy. Certainly no Federal agency or employee will starve on a \$97 or a \$98 billion budget. Certainly any administration can live within such a budget, so let us all—regardless of the party to which we may belong—help the President, and help ourselves, hold down Federal spending so we can reduce Federal taxes on a sound basis—for no government can long survive when it continuously spends more each year than it takes in, any more than any family, or any business, can long survive by spending more each year than its income.

[P. 16983]

Let us safeguard the economic security of this Republic and its people by holding down Federal spending at the same time that we reduce Federal taxes. We can do so by adopting the amendment which will be offered in the motion to recommit the pending bill.

Let us act as responsible men and women. Let us face the facts of life. Let us, by our votes, acknowledge that which our commonsense tells us—that to enjoy lower Federal taxes, so badly needed, we must also hold down public spending.

Mr. BOLLING. Mr. Speaker, I yield 10 minutes to the gentleman from Mississippi [Mr. COLMER].

Mr. COLMER. Mr. Speaker, I listened to the gentleman from Missouri [Mr. BOLLING] who presented this rule. I listened with equal interest to the gentleman from Ohio [Mr. BROWN]. When I secured this time it was for the purpose of discussing this rule. I do not like this rule. I do not like any closed or "gag" rule. I do not vote for closed or gag rules. I have a 100-percent batting average on that in the Committee on Rules because I do not think it is proper for a legislative body to gag itself and be completely dependent upon the committee that reports a bill.

We are sent here as Representatives of our respective congressional districts with a mandate to legislate. We all have a responsibility to pass judgment on these bills. And if they do not meet our particular philosophy we should then be able to offer amendments to try to put them in the shape that we can approve.

I know that this system of closed or gag rules on revenue matters has been consistently followed both in Democratic and Republican administrations ever since I have been a member of the Committee on Rules. Of course, the argument is always made that if we do not have a gag rule, if we do not gag ourselves, then we will offer a lot of amendments to the bill and we will be forced to spend weeks in considering a bill of this nature.

Well, now, let us see what is wrong with that. Suppose we did have to spend a couple of weeks legislating on this bill? How many hours has this House been in session this year during this first session of the Congress? I dare say—I have not checked it—that the RECORD will show that this House has not been in session more than an hour a day in the aggregate this entire year. And it would appear that we will have no legislative program for the next week.

Well, they say that the other body has different rules, that there are not as many of them, and yet we know that that body spends weeks and weeks on a bill sometimes. We know that they do not follow the gag rule.

Now, Mr. Speaker, what does that mean? When you analyze that and you come down to the final analysis, what does that mean? That means simply that we are saying that we do not have the capacity, we do not have the ability, we do not have the know-how to legislate on these bills as the other body does and, therefore, we have to gag ourselves.

Now, what is the practical result of this? And, I want some of my so-called self-styled liberal friends to follow me in this. You were not happy with the Rules Committee as it existed for some 50 years as an independent committee. So some 2 years ago you said you were going to liberalize that committee in order to give this body, the House of Representatives, an opportunity to work its will, and you did that. You liberalized it, but you still get the gag rules out of the liberalized committee.

Now, Mr. Speaker, in the final analysis, where does this place us, where does it place me, if you will pardon the personal reference, as one who is more concerned about the future of this country than he is about party labels—where does this place those who want to exer-

cise your prerogative to amend a bill and to make it more in line with your philosophy? It puts you in this position, and you know it and you are going to hear a lot of it in this debate. It puts you in the position of being at the will or the mercy, if you will, of the minority group of this House. Because, under this situation the only thing that you can do to change this bill is to vote for whatever the minority group over here sees fit to offer under its prerogative to offer a motion to recommit, with instructions. That does not sit well with quite a few people over on this side of the aisle, any more than it would sit well with the people on the other side of the aisle if this situation were reversed. In other words, the argument will be made that this is an administration matter and that the minority is playing politics with it.

I do not know what is motivating them, and I am not speaking for the minority group here. I do not know what is motivating them in what they may offer, but I do know that I would much prefer, as one who sits on this side of the aisle, to vote for an amendment offered over here by my party which would meet with my approval and with my philosophy of government.

Frankly, I do not know. I have not committed myself as to what I am going to do on the minority motion to recommit. But if it does something definite and concrete, if it does something to tighten up the expenditures that would justify a tax reduction, then I will support it, as will some of you, I take it, all with varying degrees of reluctance.

So much for that.

Mr. Speaker, I am basically opposed to tax reductions when we are engaged in deficit spending. That is what I have been talking about. I am basically opposed to borrowing money and paying interest on that money to give ourselves a tax reduction. That is what this amounts to. I asked the president of a large corporation a few weeks ago if he would seriously consider borrowing money, particularly if his corporation were in financial trouble, to give its stockholders a dividend. He said of course he would not.

We have been going on increasing the national debt. We keep on going in debt deeper and deeper each year. We have gone in the red \$266 billion since 1940. We are now spending more money than we spent at the height of World War II.

As a matter of fact, Mr. Speaker, we are spending approximately 2½ times as much money to service the national debt as we were spending to operate the whole Federal Government when I came to Congress in 1933.

Yes, the national debt has constantly been going up for the past 30 years. It is now nearing the \$310 billion astronomical figure.

While the permanent statutory debt limitation is \$285 billion we have increased the limitation on the debt three times in this year 1963. Moreover, we are advised that due to the impending deficit of the current fiscal year that we will be called upon again this year before the Congress adjourns to further increase the statutory limit by several additional billions of dollars.

Now, Mr. Speaker, add to that the Presidential budget estimate deficit for the year 1964 of \$11.9 billion and we are faced with a gargantuan debt of possibly \$325 billion or more by the time this Congress is ended.

But the advocates of this legislation would soothe us with the hope that by this tax reduction the national economy would take an upsurge that would enable us in a few years to have a balanced budget. Without admitting that this hope for upgrading of the economy would result in sufficient additional revenue to balance the budget the question arises, What then? Assuming that this hope would be realized, what are we expected to do after the stimulus of the economy had faded out? Would we then be called upon to reduce taxes further on the one hand or take the other horn of the dilemma and start out on a new rash of governmental spending as has been the custom for the past 30 years? In the end would our fiscal affairs not wind up in a worse situation at the end of 5 or even 10 years than it is now?

Mr. Speaker, now bear in mind that no proponent of this legislation has even suggested that this move would enable us to retire a part of this colossal debt.

Really are not we now enjoying unprecedented peacetime prosperity in this country? The national income is at an alltime high; wages, salaries, stock dividends and the earnings of our people are generally at a new peak. This coupled with the high taxes would seem to be a good time to do a little economizing and retrenching in Government spending. Prudence would suggest that with this situation we should be annually reducing the national debt.

But, Mr. Speaker, on the contrary we are asked by the President for more and more new programs calling for more and more expenditures running into billions of dollars each year.

I am sure that we are all in agreement that taxes are too high and the burden thereof should be lightened. But this humble Member of Congress believes that

the proper method of reducing those taxes is to cut down on governmental expenditures and then reduce taxes.

[P. 16984]

Certainly the least we can do is to cut a comparative amount in the expenditures with the amount of taxation reduction.

How long can we go on with this? I want to repeat a little experience I had and, by the way, this was during the Eisenhower administration. The then Secretary of the Treasury, for some reason, invited me down to have lunch with him, if you will pardon that personal reference. I have mentioned this before, but I want to repeat it. I spent a couple of hours down there. He told me what the country was up against; what the Treasury was up against. When I came back down here I said when I went down there I was worried about the future of my grandchildren, but after the 2 hours down there I was worried about my own future.

I think you had better stop, look, and listen on this thing. Frankly, I just cannot follow this modern philosophy of economics that you can spend and spend and spend yourself into prosperity. You are going to be called upon to engage in a lot of new spending, including the ARA, in the next few weeks. It will be interesting to see what you are going to do about that and the domestic Peace Corps and the other new program requested by the administration.

(Mr. ABERNETHY asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. ABERNETHY. Mr. Speaker, I wish to congratulate my friend and colleague from Mississippi [Mr. COLMER] on the fine statement he has just made.

I particularly agree with him that it is unfair and improper to force the consideration of tax bills under a closed or "gag" rule. It is wrong and contrary to the democratic processes of government to deny the duly elected representatives of the people, Members of this House, the right to offer amendments to bills regarding taxation.

It is also just as wrong to contend that Members of this body are incapable of considering a tax bill under an open rule. The Members of the other body do not "gag" or bind themselves against the presentation of amendments. And if the bill, which the pending rule makes in order, passes this House and reaches the Senate floor for consideration, numerous amendments will be offered. No doubt some will be adopted, and they should be.

Why cannot we have that same sort of privilege in the House of Representatives?

Mr. Speaker, I do not vote for "gag" rules. I do not vote to cut Members off from offering amendments. I do not vote to cut Members off from the usual privilege of speaking for a minimum of 5 minutes as an open rule would permit but which this "gag" rule denies.

I contend the Members of this House have both the capacity and the mentality to consider appropriate amendments to tax bills. I disapprove our being denied this privilege.

Therefore, Mr. Speaker, I shall vote against the rule.

Mr. BOLLING. Mr. Speaker, I move the previous question.

The previous question was ordered.

The SPEAKER pro tempore. The question is on the resolution.

The question was taken, and the Speaker pro tempore announced that the ayes appeared to have it.

Mr. FULTON of Pennsylvania. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER pro tempore. Evidently a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were—yeas 320, nays 66, not voting 46, as follows:

[Roll No. 151]

YEAS—320

Abbitt	Brotzman	Dingell
Adair	Brown, Calif.	Donohue
Addabbo	Buckley	Dowdy
Albert	Burke	Downing
Alger	Burkhalter	Dulski
Anderson	Burleson	Duncan
Andrews	Burton	Dwyer
Arends	Byrne, Pa.	Edmondson
Ashmore	Byrnes, Wis.	Edwards
Aspinall	Cahill	Elliott
Auchincloss	Cameron	Ellsworth
Ayres	Cannon	Everett
Baker	Carey	Evins
Baring	Casey	Fallon
Barrett	Cederberg	Farbstein
Bass	Celler	Fascell
Bates	Chelf	Feighan
Battin	Chenoweth	Finnegan
Becker	Cleveland	Fino
Beckworth	Cohelan	Fisher
Belcher	Collier	Flood
Bell	Conte	Flynt
Bennett, Fla.	Cooley	Fogarty
Bennett, Mich	Corbett	Forrester
Betts	Corman	Fountain
Blatnik	Cramer	Fraser
Boggs	Cunningham	Frelinghuysen
Boland	Curtin	Friedel
Bolling	Curtis	Fulton, Tenn.
Bolton,	Daddario	Fuqua
Frances P.	Dague	Gallagher
Bolton,	Daniels	Garmatz
Oliver P.	Davis, Tenn.	Gialmo
Bonner	Davis, Ga.	Gibbons
Brademas	Dawson	Gilbert
Bray	Delaney	Gill
Bromwell	Dent	Glenn
Brooks	Denton	Gonzalez
Broomfield	Derounian	Goodling

Grabowski
Grant
Gray
Green, Oreg.
Green, Pa.
Griffiths
Gurney
Hagan, Ga.
Hagen, Calif.
Haley
Halleck
Halpern
Hanna
Hansen
Harding
Hardy
Harris
Hawkins
Hays
Healey
Hébert
Hechler
Hemphill
Henderson
Herlong
Hoeven
Holland
Horan
Huddleston
Ichord
Jarman
Jennings
Jensen
Joelson
Johnson, Cal.
Johnson, Wis.
Jones, Mo.
Jones, Ala.
Karsten
Karth
Kastenmeyer
Kee
Keith
Keogh
Kilgore
King, Calif.
Kirwan
Kluczynski
Knox
Kornegay
Kunkel
Kyl
Landrum
Leggett
Lennon
Lesinski
Libonati
Lindsay
Long, Md.
McCulloch
McDade
McDowell
McFall
McIntire
McMillan
Macdonald
MacGregor
Madden
Mahon

Marsh
Martin, Nebr.
Mathias
Matsunaga
Matthews
Meader
Miller, Calif.
Miller, N.Y.
Milliken
Mills
Minish
Monagan
Montoya
Moore
Moorhead
Morgan
Morris
Morrison
Morton
Mosher
Moss
Murphy, Ill.
Murphy, N.Y.
Murray
Natcher
Nedzi
Nelsen
Nix
Norblad
O'Hara, Ill.
O'Hara, Mich.
O'Konski
Olsen, Mont.
Olson, Minn.
O'Neill
Osmers
Ostertag
Patman
Patfen
Pelly
Pepper
Perkins
Phillbin
Pike
Pilcher
Pillion
Pirnie
Poage
Poff
Pucinski
Purcell
Quie
Rains
Randall
Reifel
Reuss
Rhodes, Ariz.
Rhodes, Pa.
Riehlman
Rivers, Alaska
Rivers, S.C.
Roberts, Ala.
Roberts, Tex.
Robison
Rodino
Rogers, Colo.
Rogers, Fla.
Rogers, Tex.
Rooney, N.Y.

Roosevelt
Rosenthal
Rostenkowski
Roudebush
Roush
Roybal
Ryan, Mich.
St Germain
Saylor
Schneebell
Schweiker
Schwengel
Scott
Secretst
Selden
Senner
Shipley
Short
Shriver
Sibal
Sickles
Sikes
Siler
Sisk
Slack
Smith, Iowa
Smith, Va.
Springer
Staebler
Stafford
Staggers
Steed
Stephens
Stratton
Stubblefield
Talcott
Taylor
Teague, Calif.
Teague, Tex.
Thomas
Thompson, N.J.
Thompson, Tex.
Thornberry
Toll
Tollefson
Trimble
Tuck
Tupper
Tuten
Ullman
Utt
Van Deerlin
Vinson
Waggonner
Wallhauser
Watts
Weltner
Westland
Whalley
Wharton
White
Wickersham
Widnall
Wilson,
Charles H.
Wright
Young
Younger

NAYS—66

Abele
Abernethy
Baldwin
Barry
Beermann
Berry
Bow
Brock
Brown, Ohio
Broyhill, N.C.
Broyhill, Va.
Bruce
Chamberlain
Clancy
Clausen,
Don H.
Clawson, Del
Colmer

Derwinski
Devine
Findley
Ford
Foreman
Fulton, Pa.
Goodell
Griffin
Gross
Grover
Hall
Harrison
Harsha
Harvey, Mich.
Horton
Hutchinson
Johansen
Jonas

Kilburn
King, N.Y.
Laird
Langen
Latta
McClory
McLoskey
Martin, Calif.
Michel
Minshall
Pool
Reid, Ill.
Reid, N.Y.
Rich
Rumsfeld
Schadeberg
Schenck
Skubitz

Snyder
Stinson
Taft
Thomson, Wis.
Vanik

Van Pelt
Watson
Weaver
Whitten
Williams

Wilson, Ind.
Winstead
Wyman

NOT VOTING—46

Ashbrook	Lankford	Ryan, N.Y.
Ashley	Lipscomb	St. George
Avery	Lloyd	St. Onge
Clark	Long, La.	Shelley
Diggs	Mailliard	Sheppard
Dole	Martin, Mass.	Smith, Calif.
Dorn	May	Sullivan
Gary	Morse	Thompson, La.
Gathings	Multer	Udall
Gubser	O'Brien, Ill.	Whitener
Harvey, Ind.	O'Brien, N.Y.	Willis
Hoffman	Passman	Wilson, Bob
Holifield	Powell	Wydler
Hosmer	Price	Zablocki
Hull	Quillen	
Kelly	Rooney, Pa.	

So the resolution was agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. Whitener for, with Mr. Smith of California against.

Mr. Gubser for, with Mr. Passman against.

Until further notice:

Mr. Sheppard with Mr. Ashbrook.

Mr. St. Onge with Mr. Martin of Massachusetts.

Mr. O'Brien of Illinois, with Mr. Hoffman.

Mrs. Kelly with Mr. Bob Wilson.

Mr. Shelley with Mr. Avery.

Mr. Holifield with Mr. Lipscomb.

Mr. Hull with Mrs. St. George.

Mr. Long of Louisiana, with Mr. Dole.

Mr. Thompson of Louisiana, with Mr. Hosmer.

Mrs. Sullivan with Mrs. May.

Mr. Willis with Mr. Quillen.

Mr. O'Brien of New York, with Mr. Morse.

Mr. Price with Mr. Wydler.

Mr. Powell with Mr. Mailliard.

Mr. Clark with Mr. Harvey of Indiana.

Mr. Lankford with Mr. Lloyd.

[P. 16985]

Mr. Udall with Mr. Rooney of Pennsylvania.

Mr. Gathings with Mr. Ashley.

Mr. Diggs with Mr. Ryan of New York.

Mr. Dorn with Mr. Gary.

Mr. REID of New York changed his vote from "yea" to "nay."

The result of the vote was announced as above recorded.

The doors were opened.

A motion to reconsider was laid on the table.

Mr. MILLS. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

The motion was agreed to.

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 8363, with Mr. ROOSEVELT in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

Mr. MILLS. Mr. Chairman, I yield myself 15 minutes.

Mr. Chairman, as all of us have heard much discussion of the contents of the bill, H.R. 8363, providing for a tax reduction of some \$11 billion in two steps, I do not propose to go into a detailed analysis of the provisions of the bill unless there are some questions with respect to it.

Instead, Mr. Chairman, I ask unanimous consent to supplement my remarks in the RECORD by inclusion of some detailed discussion of the separate provisions of the bill which I have prepared myself.

The CHAIRMAN. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. MILLS. Mr. Chairman, let me begin by calling attention to the fact that the Committee on Ways and Means has considered this proposition perhaps as intensively, as any matter I recall since I have been on the Committee on Ways and Means.

Let me readily confess, Mr. Chairman, that in the beginning I had perhaps more reservations about this matter than I have experienced with respect to most any other matter that has come up for consideration, not only before the Committee on Ways and Means, but before the House of Representatives.

As the result of the initial concern that I had, Mr. Chairman, I devoted more thought and more study to the position that I have finally taken with respect to this legislation than I have with regard to any other bill that I have thought about or studied.

As the result, Mr. Chairman, of that study, that thoughtful meditation, if I may so phrase it, I have reached the conclusion that this legislation, to my way of thinking, is undoubtedly the most important legislation affecting the economic front here at home that it has been my pleasure to present to the House of Representatives during the years I have been a Member of Congress.

I think undoubtedly the decision that we will make tomorrow with respect to this legislation will have more effect on the economic future and well being of the people of the United States than any legislation I have had the privilege of asking my colleagues to support.

Mr. Chairman, after that study I have reached the firm conviction that this

legislation should be passed by the House of Representatives and that it should be passed by an overwhelming majority of the votes of the membership on tomorrow.

Mr. Chairman, why do I say this? The purpose of this bill, as the committee report indicates, is to remove the private sector of the American economy from its high-tax straitjacket. The purpose of this bill, Mr. Chairman, is to breathe into our free enterprise system that additional vitality that we, who studied the matter, concluded it requires if it is to do the job required of it today.

Perhaps even better is the description referred to by my friend from Ohio during the course of the discussion on the rule, my friend of many, many years, Mr. BROWN, is found in the editorial in the Evening Star of a few days ago. I shall not read that part referring to the colloquy between us in the Rules Committee but only to the part of the editorial which states:

There is one overriding reason why Congress should cut taxes and do it now. This reason, simply stated, is that the tax burden is much too heavy.

Mr. Chairman, it does not take argument to convince anyone of that fact. There is no one, I am sure, within the sound of my voice today who is not aware of and will accept without argument the fact that the present tax burden is much too heavy.

Mr. Chairman, we have become so accustomed, through long acquaintance-ship, with the present high tax rates that few of us stop to think even of their genesis. This in itself suggests that we have lived with these burdens much too long.

Except for a relatively modest reduction in 1948 and an increase in tax rates during the Korean war, which carried on automatic termination date, the present individual tax rates are those which were imposed during World War II.

Let us go back a moment. Let us review history. Let us see why we did what we did then. The rates in the upper brackets were imposed at that time to assure equality of sacrifice—in the name of taking the profits out of war. In the lower brackets, they were imposed not only because of the necessity of raising a large volume of revenue, but also with the specific intention to dampen down consumer demand during the period of the war when most of the production in the United States had to be devoted to military requirements and there were not enough consumer goods to go around. In other words, Mr. Chairman, these rates that we have today were an integral part of, and closely tied in with our price and wage control and

rationing system and other wartime controls that we repealed immediately after hostilities ceased.

It should be clear to all of us, Mr. Chairman, that when these rates were adopted, Congress certainly did not have in mind the reasons which we would have for a tax rate structure today.

I ask the simple question: Is it not about time that we got rid of these wartime rates which have so long ago outlived their purpose? Eighteen years have passed since the end of that war, yet we have approximately the same rate structure.

If we do not get rid of these high rates now—if we give in to the fears of those who think this is not quite the time to reduce these rates—a new set of “ifs,” “ands” and “buts” and “maybes” will be found next year and the year after that, for not reducing the rates then. We might then find ourselves saddled indefinitely with this wartime rate structure. It is no wonder that reference has been made to this bill as being the most important economic legislation to come before the Congress in the last 15 years.

Recently, I have heard this bill referred to by those who want to attach some “ifs,” “ands,” “buts,” and “maybes” to it as being a gigantic gamble. Frankly, I do not think of it as a gamble. But, if it is a gamble, it is one with the free enterprise system, and I, for one, would not be afraid to place my confidence in the private sector of our economy.

What are we doing in this bill? We are loosening the constraints which the present high tax system imposes on our economy. We are taking a step toward a freer economy. Perhaps most important of all, we are taking a step away from big Central Government.

This is truly a crucial time in economic policy, for we face a series of problems which will not wait for a solution. Either we give our free enterprise system an opportunity to solve these problems for us, or we will find that an attempt will be made by others to solve them by more and more Government spending.

It is an ironic twist of fate, Mr. Chairman, that those who in reality are opposing a tax reduction at this time—although they may think of themselves merely imposing a series of conditions—are in reality following the line which is almost certain to lead to more rather than less Government spending. Because if the answers to these problems are not found now through an immediate tax reduction and the freeing of our economy, they will be found by demands, which I believe will be successful demands, for bigger and bigger spending by the Federal Government.

The problems I am referring to have been frequently discussed of late and they are very real.

First, there is the problem of recurring deficits in the Federal budget. In the last 15 years we have had surpluses only in 4 of those years. A major factor accounting for the deficit in all of these years has been the failure of the economy to expand as expected and predicted by those who prepared the revenue receipts. Interestingly enough, also, two of the four surpluses in this 15-year period occurred as the direct result of a tax reduction. In 1954, Congress—despite the presence of a deficit in that year and in the 2 preceding years—provided a series of tax reductions totaling \$7.4 billion, including the automatic reductions. Yet, only 2 years later, in 1956, receipts were \$3.2 billion above the level existing before the reductions were made. Unfortunately, these reductions did not get at the root of the matter, the high World War II income tax rates, with the result that we have had a poor economic performance in many respects since that time. In the period 1958 to 1963 the initial estimate was for surpluses in each of these years when the budget was submitted, but in 5 out of 6 years there were deficits averaging over \$6 billion. For the economy to improve sufficiently for us to get rid of these plaguing deficits we must have a faster rate of growth generated by the private sector—as will occur if we free it from the present high tax straitjacket.

A second problem to which I would like to direct your attention is the problem of unemployment. Currently the unemployment rate is 5.5 percent. It amounted to 5 percent or more in each month during the last 5 years and on occasion it has approached 7 percent. The excess unemployment stems from a lack of sufficient growth in our economy. It is something that will not long be endured. If we do not find a way of stimulating the economy's growth through tax reduction, others will find an answer for it by increased Government spending.

The unemployment problem is bound to get worse without some action in the years ahead, instead of better, as the size of the labor force increases due to the so-called population explosion during and following World War II. Merely to hold unemployment to 4 percent by 1966, some 5.5 million new jobs must be found. This does not take into consideration additional jobs which will have to be found as a result of automation or changing markets.

Ladies and gentlemen, this is a serious matter. Is there anyone here who

doubts that some solution of this problem will be sought and, if it is not found by the free enterprise system creating jobs, does anyone doubt that we will be told that it can be resolved by additional Government spending?

There is a third problem closely related to this problem of unemployment, Mr. Chairman. It has to do with the problem of obsolete plant and unused plant and equipment capacity. The problem of excess capacity has plagued American industry since 1957. The same period during which plant and equipment expenditures have lagged behind the growth in the economy. During this period, for example, business expenditures for new plant and equipment have fallen from 8.3 percent of the gross national product in 1956-57 to 6.7 percent in 1962. The unused plant and equipment, that we are talking about, is attributable to the absence of two factors: adequate profit margins and sufficient demand for goods and services.

Are we to expect the free enterprise system in a tax straitjacket, without adequate profit margins and without sufficient demand for goods and services under the existing situation to resolve this problem? Is there any doubt in anyone's mind that the private enterprise system is capable of resolving it and will resolve it if you give that system the opportunity to be a little freer of the restraints that we placed upon it in the time of World War II? Lower tax rates on corporations and unincorporated business undoubtedly will do more to resolve this problem than will additional Federal spending.

There is a fourth problem today, Mr. Chairman, that bears upon this subject; that is the problem of the balance-of-payments deficits. Here what we need is an expanded export market. This can occur through higher domestic productivity which gives rise to the production of new products, and because of new plant and equipment, gives rise to more economical production. In addition, and perhaps most important of all, increased domestic opportunities which will be brought about by the tax reduction afforded by this bill will make investment here more attractive than it is abroad. This means not only attracting investment funds back to our shores, but it also helps to keep investment funds here as well.

Oh, yes, it is true that an increased demand for goods also gives rise to an increased demand for imports. Tax reduction may therefore have some effect in that direction. But, Mr. Chairman, the effect of a tax cut on exports and on creating a more favorable climate for investment here will more than out-

weigh that one factor. Experience in Europe demonstrates this, if nothing else. Their rapidly growing and modernizing economies have produced balance-of-payments surpluses, reinforcing the external strength of the currency.

The idea, Mr. Chairman, that tax reductions will provide the rate of growth we need in this country to solve the problems I have listed for you, and that the tax reductions, after a brief transitional period, will actually increase revenues above the levels that would have been achieved in the absence of tax reductions are not new or novel ideas as some would suggest.

Not only is this notion subscribed to by most of those to whom I have talked in the business and financial world but also by many, many others as well. Among these is the former chairman of the Committee on Ways and Means, one of the great men from the other side of the aisle, the late Honorable Dan Reed. This view was also held by, and demonstrated by the actual experience of, the Republican Secretary of the Treasury Andrew Mellon during the late twenties. I read a book one time that he wrote, in which he said they were taking more money from the American people than was required to pay bills and to make payments on the public debt. When they undertook to give it back to the American people by tax reduction, each time the taxes were reduced, they received more money from the American people and he did not know what to do about it.

Mr. Chairman, we do not have to depend exclusively upon reference to thoughts of the past to demonstrate the fact that tax reduction, if properly timed, will provide the economic growth this country needs and the additional revenues required by the Government to balance the budget. Our own common-sense tells us that this is so.

We must not forget that the reduction in individual income tax rates provided by this bill, \$9.5 billion, in addition to the savings incentive effect, will also provide an important boost to the economy simply by leaving with people income which is presently taken from them through taxation. Most consumers, based upon past performances, can be expected to spend anywhere from 92 to 94 percent of their additional take-home pay on consumer goods and services. The spending of these funds will result in further income which, in turn, will generate still further rounds of increased expenditures.

Mr. Chairman, the bill can also be expected to materially increase the amount

spent for plant, equipment and inventory by American business. This increased investment on the part of business also means additional consumption and additional consumption means additional investment by business.

It is on the basis of this type of reasoning, Mr. Chairman, that I have reached the conclusion that this bill will provide a sufficient increase in the gross national product so that the larger revenues derived from this additional income will result in the Federal budget being balanced sooner than would be the case in the absence of this tax cut.

Mr. Chairman, there is no doubt in my mind that this tax reduction bill, in and of itself, can bring about an increase in the gross national product of approximately \$50 billion in the next few years. If it does, these lower rates of taxation will bring in at least \$12 billion in additional revenue.

Oh, yes, I am aware of the fact that some of those on the other side of the aisle say that they are for a tax cut too, but then they go on to attach some ifs, buts, ands, and maybes to it. They say they want a tax cut only if expenditures are reduced; I understand the fact that a recommittal motion will be introduced to achieve this purpose. My comments on the recommittal motion, however, I will reserve until I see the form of the motion. I have heard so many different motions tried and then discarded that I am never quite sure when the last version announced will also be discarded in favor of some still different but untried and unworkable limitation.

I can assure you that there is no one more interested in holding down Government spending than I and the other members of the Committee on Ways and Means who reported this bill. It was for this reason that we placed in this bill as section 1 the declaration by Congress. It is quite short; let me read it to you:

It is the sense of Congress that the tax reduction provided by this act through stimulation of the economy, will, after a brief transitional period, raise (rather than lower)

[P. 16987]

revenues and that such revenue increases should first be used to eliminate the deficits in the administrative budget and then to reduce the public debt. To further the objective of obtaining a balanced budget in the near future, Congress by this action, recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

I have heard this referred to as a pious hope but I can assure you that it will not be merely a pious hope if the Members of Congress and the administration real-

ly adopt this philosophy of action. I firmly believe that we will.

The President on three separate occasions has quite recently placed himself on record in favor of economy in Government spending. This has all been an outgrowth of this tax reduction bill and the section included in it by your committee.

First, there is the letter he sent to me which is reprinted on pages 124 and 125 of the committee report. In this the President states:

First, our long-range goal remains a balanced budget in the balanced full employment economy. It is clear that this goal cannot be achieved without a substantial tax reduction and the greater national income it will produce.

Second, tax reduction must also, therefore, be accompanied by the exercise of an even tighter rein on Government expenditures, limiting outlays to those expenditures which meet strict criteria of national need.

Third, consistent with these policies, as the tax cut becomes fully effective and the economy climbs toward full employment, a substantial part of the increased tax revenues will be applied toward a reduction in the transitional deficits which accompany the initial cut in tax rates.

Fourth, assuming enactment of the tax program incorporated in your committee's bill with a consequent loss of revenue of \$5 billion more in fiscal 1965 than in fiscal 1964, I nevertheless expect—in strict accordance with the above policies, and in the absence of any unforeseen slowdown in the economy or any serious international contingency in the next 5 months—to be able to submit next January a budget for fiscal 1965 involving an estimated deficit of less than the \$9.2 billion forecast for fiscal 1964 by the Secretary of the Treasury in your executive sessions last week.

Here the President committed himself to preventing expenditure increases from exhausting the additional revenues which arise as the economy expands as a result of the income generated by this tax reduction.

A week ago yesterday, I released a statement much of which I shall repeat in just a moment expressing my philosophy that we should provide a more prosperous economy by loosening the constraints on the private sector of the economy rather by following the policy of increasing Government spending. After I released my statement, the President sent me the following unsolicited letter:

I thought your Monday release in support of the tax bill was excellent. It should be convincing to Members of Congress and I subscribe to it.

Sincerely,

JOHN F. KENNEDY.

Still more recently, the President in his recent television speech said:

No wasteful, inefficient, or unnecessary

Government activity will be tolerated. We are pledged to a course of true fiscal responsibility leading to a balanced budget in a balanced full employment economy.

I believe that given the passage of this bill, the President has committed himself to a course of true economy in Government expenditures. Of course, it can hardly be expected that this will affect his views on programs already sent to us, but I do anticipate that this new point of view will permeate the programs presented to us this next year. In addition, I anticipate that this philosophy will be reflected in the administering of the programs already provided, or soon to be provided, for the current year.

To those of you who may not be satisfied with these assurances, however, let me point out that in any event, the President cannot spend a nickel unless Congress first authorizes it. As a result, we have in our own hands the power to limit Government expenditures and I do not believe that we will abdicate our responsibilities.

We have a choice to make today which in any event transcends the question of the immediate level of spending and deficits. I believe it is quite clear with the slow growth rate, unemployment, and unused plant capacity that we have facing us today, and can expect in still greater volume tomorrow if our growth rate is not increased, the country is going to demand some kind of action to meet these problems.

I am convinced that there are two roads the Government can follow toward the achievement of this larger and more prosperous economy. I believe we are at the fork of those two roads today. One of these is the tax reduction road. The other is the road of Government expenditure increases.

Many believe that we can spend our way to prosperity. On the other hand, I am firmly convinced that if Congress adopts a tax reduction and revision bill of the type which is before this body today, we can also achieve this more prosperous economy by loosening the constraints which the present Federal tax system imposes on our free enterprise system. These tax reductions will bring about a higher level of economic activity, fuller use of our manpower, more intensive and prosperous use of our plant and equipment, and with the increases in wages, salaries, profits, consumption and investment, there will be increases in Federal tax revenues.

Although it may be possible to achieve the prosperity we desire by either of the two routes I have outlined to you, nevertheless, there is a big difference—a vital

difference—between them. The route of Government expenditure increase achieves this higher level of economic activity with larger and larger shares of that activity initiating in the Government—with more labor and more capital being used directly by the Government and with the Government's activities determining in larger and larger part the use of labor and capital in the private sector of the economy. This road leads to big Government, especially big Central Government. My own view, and I believe the view of all of us, is that we should to the full extent possible call upon the private sector of our economy to give us the needed growth. Moreover, I believe that most of us feel that we should encourage provision for the maximum number of government services possible at the State and local government levels. If we achieve our prosperity by the route of big Government spending, we will surely be sounding the death knell to these objectives.

The route I prefer is the tax reduction road which gives us a higher level of economic activity and a bigger and more prosperous and more efficient economy with a larger and larger share of the enlarged activity initiating in the private sector of the economy. If you go this route, the decisions of individuals will govern on such questions as whether private consumption should be increased and diversified in one given line or another, and the decisions as to increases in productive capacity will be left to private business concerns to make. They will be free to acquire more plant and machines, hire more labor, and to expand their inventories in those areas they determine are the most needed by our free enterprise economy.

Section 1 of the bill is a firm, positive assertion of the preference of the United States for the tax reduction road to a bigger, more progressive economy. When we, as a nation, choose this road we are at the same time rejecting the other road, and we want it understood that we do not intend to try to go along both roads at the same time.

The further meaning of section 1 of the bill is that no Government activity is to depend for its justification on the amount it contributes to the total spending of the economy, because we prefer to reduce taxes and allow individuals and business concerns in their own right to make that contribution. On the contrary, any and all activities of the Government have to be justified on their importance in serving other essential goals of the Nation. There is no further justification for an indifferent attitude toward wasteful, inefficient Gov-

ernment activities, merely because they incidentally give employment—tax reduction will also create job opportunities and in lines of activity which better satisfy the character and demands of the people for an enriched life. There is no more justification for half-hearted efforts or outright failure to eliminate Government programs that have outlived their usefulness just because they also contribute to the total spending stream of the economy—that contribution will be better realized by increasing the purchasing power of consumers and investors through tax reduction. Finally, there is no further occasion for using the additional revenues which will be generated by the expansion of the economy as a result of tax reduction and

[P. 16988]

revision to finance additional investment expenditures, solely because those additional expenditures might add further to expansion of economic activity. If such additional expansion is desired or needed, tax reduction will achieve it just as surely and through vigorous and progressive forces of the private sectors of the economy.

Let me emphasize the last point. Section 1 of the bill announces very clearly that we are not rejecting a balance in the budget as the guiding criterion for management of the finances of the Federal Government. We are, indeed, emphatically reaffirming that criterion. We are confident that within a relatively short period of time, tax reduction and revision will result in larger Federal revenues than those we could expect without these tax changes. Section 1 of the bill calls upon both the Executive and the Congress to restrain Government expenditures so that this increase in revenues can reduce deficits and bring us sooner to realization of the goal of a balanced budget in a prosperous economy.

I have stressed the contribution this bill will make in achieving a balanced budget and an enlarged economy. These are the principal economic objectives of the bill. If I were called upon to give a definition of the phrase "fiscal responsibility," this is just how I would define it. It means conducting the finances of the Federal Government in such a way that a balanced budget can be and is achieved in an economy which is growing rapidly, providing adequate employment and investment opportunities, making full use of its capital and human resources, and giving the fullest possible play to the initiative and venturesomeness of the private sector. Tax reduction and revision will make it pos-

sible for us to achieve these objectives—to be fiscally responsible—with minimum direct intervention by the Government in the decisions of individuals and business concerns.

It has been argued by some that this bill represents an effort by the Federal Government to manage the economy and ignores the precept that taxation should be for revenue purposes only. The argument is completely wrong. This bill reflects an effort by the Federal Government to reduce and remove—not to impose—tax constraints on the economy, to give the private sector of the economy greater wherewithal to do what comes naturally to it and which increases the well-being of all of us. Moreover, it affords us the greatest possible assurance that we will before long secure revenues equal to—or even greater than—Government expenditures. Indeed, failure to provide tax reduction and revision at this time would be fiscally irresponsible. It would represent the Federal Government's ignoring the adverse impact of its excessive tax burdens on the economy and on the budget. We must remember that tax policy cannot be made in a vacuum. If we are to be responsible, we must give the closest possible attention to the effects on the economy of what we do—or fail to do—in tax policy.

This bill, therefore, represents a responsible discharge of our duties to sound fiscal management.

Mr. Chairman, I am as sold as I was ever sold on anything that this action is deserving of the support of every Member of this Congress who believes as I do that this country became strong, became what it is today, not as a result of solving every known problem in those days by the expenditure of money from Washington; instead this country became what it is because in the years of our major growth, from infancy to World War II, we left the private sector of this economy in condition so that it could generate the growth that was required to provide the jobs to renew obsolete plant and equipment.

Mr. Chairman, to my way of thinking this bill is a bill on which we can put our stamp of approval by saying that we have as much confidence in the private sector of the free enterprise system as our forefathers had.

Oh, yes, but there is one question in the minds of my colleagues on the minority side. They indicate they do not disagree with what we say. Everybody loves a tax reduction. "But," they say, "what are we going to do about the rate of spending?" They say we are so concerned, because we have such little confidence not only in anyone downtown but

in ourselves as well, the Congress as a whole. They say we have got to have some "ifs" about tax reductions, and we have to attach some "buts" to any tax reduction, and some "maybes."

As I have indicated to you there are two roads we can travel today. We can travel the road of major reliance on the private sector to do some of these things that need to be done by releasing the free enterprise system from these high rates of taxation, or we can continue on down the road that we have been on—long before I ever came to Congress—the road of more and more spending to solve these problems.

Which road are we going to take? What we want to be concerned about is that the present rate of spending is not permitted to get out of hand so that we travel both roads at the same time, because we cannot travel both roads at the same time without bringing on some very serious results.

The gentleman from Wisconsin, for whom I have the utmost respect, stated the other night on television that the Republicans had found or he had found this unbreakable, magic way of providing for assurances that the spending would be held down.

He has not found an unbreakable way. No, he has not found it. He has found some magic figures and he wants to say, if the President is willing to subscribe to them, then the tax reduction may go into effect. But, Mr. Chairman, we tried in the Ways and Means Committee to find such a method and could not, and no one in this Congress is going to find an unbreakable way to assure that expenditures can be held. If what we have in the bill is nothing but a pious hope—and it has been so described, Mr. Chairman by some—it is a pious hope because the people who say it have no confidence in the membership of this House to carry out what undoubtedly must be a moral obligation if you vote for this tax reduction.

Mr. Chairman, I have been a Member of this body for 25 years. At no time have I ever tried or permitted myself to think harshly of any colleague. I have the utmost confidence in every Member, or anyone who can sell himself to an electorate and come to this, the greatest deliberative body on the face of the earth; but let me tell you something, Mr. Chairman, I would not have confidence in the good judgment of any colleague who would resolve after voting for this bill that he could also go down the other road of continued, ever-increasing Federal spending just for purpose of stimulating the economy.

The greatest psychological factor that

we can create to control spending is the denial of additional revenues to the Treasury of the United States. If you think this administration, or if you think you as an individual Member of Congress, can continue after this tax reduction to advocate and vote for everything that you may have advocated and voted for before tax reduction to stimulate this economy, my guess is you are going to find your constituency and the American people leaving you.

The greatest factor, Mr. Chairman, is not what we say in this bill, not the magic figures that we conjure up, and certainly not our concern about figures for 2 fiscal years. The final fact is our own performance.

This Congress cannot be judged in the future, having voted for tax reduction, on the basis of what it has done in the past.

To those who say they have no confidence today in the Congress I cannot speak to appealingly, for they have closed minds with respect to the sincerity, in my opinion, of all of us who vote for tax reduction. But I have that confidence, Mr. Chairman, I have that confidence in my colleagues.

Let me again remind each and every one of you that neither this President nor any other President who has ever been in the White House could spend \$1 that the Congress did not make available to him. In spite of that fact this is a joint responsibility. We did not call on the President to subscribe to the interpretation that we gave to section 1 of this bill. He agreed to it without any solicitation on my part. I have explained this earlier in my remarks. Remember this was in addition to the President's earlier letter of August 19 on this subject.

What is the meaning of that? The meaning of that is that for the first time, in my opinion, in years, primary responsibility for the growth we must have is to be placed back where it belongs, on the private sector of this economy. We are asking the free enterprise system to come forward with some of the answers to some of the problems of today.

I would think, Mr. Chairman, that those who may doubt would want to think further with respect to the posi-

[P. 16989]

tion they put themselves in if they vote for the motion to recommit or if they vote against this bill. This is truly a turning point in economic policy. I plead with you to be a part in making it possible. Let us get away from the mistakes of the past. Let us get on this new road.

BRIEF SUMMARY OF H.R. 8363

Mr. Chairman, I am inserting at this point a summary, which I have prepared of the major provisions of this tax bill, which I previously obtained permission to include.

SUMMARY OF MAJOR PROVISIONS IN TITLES 1, 2, AND 3 OF H.R. 8363

A. RATE REDUCTIONS

1. Individual income tax rates are reduced from the present rates of 20 to 91 percent to rates ranging from 14 to 70 percent in 1965. Rates ranging from 16 77 percent make about two-thirds of this reduction available in 1964.

2. A minimum standard deduction included in this bill, when coupled with personal exemptions, provides a newer and higher income floor before taxes become applicable to individuals. Thus, for single individuals the minimum level at which taxation starts is increased from the present \$667 to \$900. For a married couple with no children, the floor is increased from \$1,333 to \$1,600 and for a married couple with 2 children the minimum tax floor is increased from \$2,667 to \$3,000.

3. The tax rate for corporations in 1964 is reduced from 52 to 50 percent and is further reduced in 1965 to 48 percent.

4. To aid small business, the rate applicable to the first \$25,000 of corporate income beginning in 1964 is reduced from 30 to 22 percent.

5. Corporations are placed on a full pay-as-you-go basis for all of their corporate tax liability above \$100,000 so that this liability eventually will be payable in the year in which earned. This is achieved over a 7-year period so that after taking into account the corporate tax rate reductions it will not result in an increase in corporate tax payments in the transitional period.

B. STRUCTURAL CHANGES

1. Dividend credit and exclusion

1. The credit for 1964 is decreased from 4 to 2 percent.

2. The credit for 1965 and later years is repealed.

3. The exclusion for 1964 and later years is increased, from \$50 to \$100 (for married couples it may be \$200).

2. Investment credit

1. The "Long" amendment is repealed.

(a) The base for depreciation is not to be reduced by 7 percent if property is purchased after June 30, 1963.

(b) For assets purchased before June 30, 1963, the depreciation base for the future is increased by 7 percent.

2. Lessees of distributors, like lessees of manufacturers, are to base their investment credit on the "fair market value" of the equipment rather than its cost.

3. Escalators and elevators are to be eligible for the investment credit if installed after June 30, 1963, and depreciation after that date is to be "recaptured" as ordinary income if the assets are sold.

4. Federal regulatory agencies are not to require the "flow through" to the consumer of the benefits of the investment credit—

(a) In the case of "public utility" prop-

erty eligible for the 3-percent credit (electric and telephone companies), except over the life of the asset.

(b) In the case of other property eligible for the 7-percent credit (transportation, gas, and oil pipelines), at any time.

3. Group term insurance

1. Employees are to be taxed on this insurance on coverage over \$30,000 to the extent provided by employers or other employees.

2. Employees who are retired are not taxed on this income and those naming charities as beneficiaries are not taxed.

3. Cost is determined from a "premium cost table" by 5-year age brackets prepared by the Treasury or actual costs if lower.

4. Employees paying more than their own cost, on protection over \$30,000 are allowed a deduction for these excess payments.

4. Reimbursed medical expense

Amounts received through accident or health insurance for medical expenses are to be included in the individual's tax base to the extent the insurance payments received exceed the total medical expenses for the injury or sickness.

5. Sick pay exclusion

1. Presently the sick pay exclusion applies to wage contribution payments of up to \$100 a week but in the case of sickness where the individual was not hospitalized only after the first week of sickness.

2. The \$100 a week exclusion in the future is to be available only to the extent the sickness or accident extends the absence from work beyond 30 days—primarily covering long illnesses and permanently disabled up to retirement age.

6. Sale of residence by person 65 or over

Any gain on the sale of a personal residence by a person 65 or over is not to be reported for tax purposes to the extent it represents the gain on the first \$20,000 of the sales price of the house.

7. State and local taxes

1. State and local taxes which in the future will continue to be deductible are:

- (a) Personal property taxes.
- (b) Real property taxes (also foreign).
- (c) Income taxes (also foreign).
- (d) General sales taxes.

2. The principal taxes which will no longer be deductible when attributable to nonbusiness purposes are:

- (a) Gasoline taxes.
- (b) Auto tags.
- (c) Tobacco taxes.
- (d) Alcohol taxes.
- (e) Selective excise taxes.

8. Personal casualty and theft losses

The deduction of nonbusiness casualty and theft losses is limited to amounts lost in excess of \$100 per loss.

9. Charitable contributions

1. The additional 10-percent deduction (30 percent in all) is to be available with respect to charitable contributions generally except those to private foundations.

2. Corporations are to have a 5-year carry-forward (rather than a 2-year carryforward)

for contributions in excess of their 5-percent limitation.

3. Gifts of future interests of tangible property are not to be deductible until the gift is completed unless the property is reserved only for the donor's life (or joint lives in the case of a husband and wife).

10. 1-percent limit on medicines and drugs

The 1-percent floor on medicines and drugs below which these expenses cannot be taken into account for the medical expense deduction is not to apply to expenses for the care of—

1. The taxpayer or his spouse if either has reached age 65; or

2. Any dependent parent over 65 of the taxpayer or his spouse.

11. Child care deduction

1. The deduction is to be available where the wife is incapacitated or institutionalized for 90 days or more.

2. The maximum deduction is raised from \$600 to \$900 per year but only where there are two or more children.

3. The maximum age of the children for which a child care deduction may be taken is increased from up to 12 to up to 13.

12. Moving expenses

1. Moving expense deductions (whether itemized or not) are to be granted for the first time to employees who are not reimbursed and to new employees whether reimbursed or not. These deductions are to be available only for—

(a) Transportation expenses of the employee and his family.

(b) Transportation costs for moving personal effects and household goods.

(c) Expenses for meals and lodging of the employee and his family while they are in transit.

2. No change is made in the exclusion of reimbursed "old" employees.

13. Bank loan insurance

Interest on debt incurred or continued to buy life or endowment insurance or annuities is not to be deductible if the individual systematically borrows part or all of the increase in the cash surrender value to pay his premiums. However, deductions are not to be denied if—

(1) he doesn't borrow any part of four out of the first seven annual premiums;

(2) the interest deductions do not exceed \$100 a year;

(3) the borrowing was caused by unforeseen financial obligations or losses of income; or

(4) the borrowing was used to finance business obligations.

It should be noted that in the explanation of this provision in the committee report, the printers inadvertently omitted a line. On page 62 of the report beginning with the second sentence under (c)(1) 1 of that page the report should read: "However, to prevent avoidance of this provision by taking out a contract with very low premiums for the first 4 years, with the premiums being substantially greater thereafter, the bill contains a rule relating to situations of this type. It is provided that the 7-year period referred to above is to commence again at any time there is a substantial increase in

the premiums payable under the insurance or annuity contract."

14. Stock options and purchase plans

A. Stock options

(1) The option price can't be less than 100 percent of fair market value of stock at time option is granted (instead of 85 percent).

(2) The stock must be held for 3 years (instead of options and/or stock for 2 years).

(3) The option must be for a period of not over 5 years (now 10).

(4) Stockholder approval must be given to the plan within 12 months of its adoption.

(5) The options must be not exercisable while an earlier option is outstanding which has not been exercised (options now outstanding can be canceled, however, or won't count until exercisable).

(6) Generally the optionee must not be a 5-percent shareholder or more (10 percent in the case of small companies).

B. Employee purchase plans

(1) Plans must be nondiscriminatory.

(2) The amounts per employee involved may not exceed \$25,000.

(3) The option may not extend over 5 years or 27 months where purchased at 85 percent of value.

(4) There must be stockholder approval.

(5) The optionee must not be a 5-percent shareholder or more.

15. Interest on deferred payments

1. Where property is sold on an installment basis covering more than 1 year with either no, or low, interest payments provided, then

[P. 16990]

part of each installment payment is to be considered an interest payment. The amount so considered will be the going rate of interest as determined by the Treasury.

2. Carrying charges for which an interest deduction may be taken are to include payments for services as well as personal property.

16. Personal holding companies

A. Domestic companies

1. The tax rate on these companies is lowered to 70 percent (now 85 percent on first \$2,000 and 75 percent on remainder).

2. A company will be treated as a personal holding company if 60 percent of its income is from personal holding company sources (now 80 percent). The basic change is explained in No. 1 below.

3. The base for the 60-percent test is no longer to include any capital gains.

4. Rents are to be considered personal holding company income if they equal 50 percent of adjusted ordinary gross income (gross income today). Also, under a new test, not more than 10 percent of ordinary gross income apart from rents may be personal holding income without rents also being so treated.

5. Mineral, gas, and oil royalties are personal holding company income unless they represent 50 percent or more of adjusted gross income (now gross income) and unless the related deductions represent 15 percent or more of adjusted gross income (now gross income). Also, under a new test, not more

than 10 percent of the company's other adjusted gross income may be personal holding company income for the company to avoid that treatment.

6. One of three tests for copyright royalties under present law is that the related expenses must equal 50 percent or more of the company's gross income. Under the bill, these expenses must equal 25 percent or more of the company's gross income less royalties paid and depreciation deductions for copyrights.

7. In computing the income not considered personal holding company income for purposes of the 60 percent test—

(a) Rents are reduced for related deductions for depreciation, property taxes, interest and rents paid.

(b) Mineral, oil and gas royalties and working interests in oil and gas wells are to be reduced for related deductions for depreciation, depletion, property and severance taxes, interest, and rents paid.

8. Film rents, other than "produced" film rent will be treated the same as copyright royalties. The "produced" film rent, however, as under present law will be subject to only one test; it must be 50 percent or more of gross income not to be personal holding company income.

9. The exemptions for personal finance companies are generalized, and liberalized somewhat, so all of these companies can qualify under the same exemption.

10. Liquidating dividends of a personal holding company to be treated as deductible in computing its income subject to this tax must be treated as taxable dividends when received by an individual shareholder. In the case of corporate shareholders, the amount treated as a dividend for this purpose is to be limited to taxable income in the year of distribution.

11. Companies which are not now, but will be personal holding companies under the new provisions, may liquidate before 1966, receiving capital gains treatment on earnings and profits distributed and nonrecognition of gains at that time on other property distributed except money and except securities required after December 31, 1962.

12. The treatment I have just described is also to be available to post-1965 liquidations if the company liquidates as soon as it has paid off its debt incurred before August 1, 1963.

13. If one of these companies liquidates before 1966 most of the new personal holding company provisions are not to apply to it.

14. A deduction is to be allowed for companies newly becoming personal holding companies for debt paid off in the future if the debt was first incurred before August 1, 1963.

B. Foreign personal holding company holdings

1. Increase in basis for foreign personal holding company stock.

Present law provides that the basis of stock of a foreign personal holding company on the death of a shareholder is to be the value of the stock at the time of the shareholder's death or its cost to him whichever is lower—usually his cost is lower. The bill increases the basis of a stock by the proportion of the

estate tax of the shareholder attributable to the appreciation in the value of the stock of the foreign personal holding company.

2. Liquidation of foreign personal holding company.

(a) The bill permits the liquidation of foreign personal holding companies with a 4-month period after the date of enactment under a provision which taxes as dividends any accumulated earnings and profits, taxes as capital gains any money distributed or any stock or securities acquired after December 31, 1963, and allowing the remaining portion of the appreciation in the stock in the corporation to go untaxed at the time of liquidation but assigning the stockholders basis for his stock to this property.

(b) Where one of these liquidating distributions is made the property distributed at the time of the shareholder's death is to be treated the same as if he still held stock in the foreign personal holding company; that is, the new basis for it will be the old basis increased only by the estate tax attributable to the appreciation in value of this property.

17. *Treatment of property in the case of oil and gas wells*

1. For taxable years beginning after December 31, 1963, the bill repeals the rule of existing law known as the "operating unit" rule. Thus, taxpayers will no longer be able to aggregate two or more separate operating mineral interests for tax purposes where they come under what is known as an operating unit.

2. For the future, operating mineral interests cannot be aggregated above the level of a separate lease or acquisition.

3. An exception to the above rule requires aggregation where a unitization agreement has been entered into. This is where two or more taxpayers holding interests in separate tracts of land exchange their interests for an undivided interest in a larger area. This can also occur where a taxpayer holding several leases enters into an arrangement to pay the lessors royalties based on the undivided share of the oil and gas from all the leases.

18. *Treatment of iron ore royalties*

1. The bill provides that iron ore royalties are to be eligible for capital gains treatment in the future.

2. The capital gains treatment referred to is class B capital gains treatment; that is, in the case of royalties or iron ore held more than 6 months, 50 percent of the gain will be included in income (even though held more than 2 years) and the gain will be subject to a maximum alternative rate of 25 percent—this is the type of capital gains treatment under existing law for coal.

19. *Capital gains and losses*

A. Class A and B capital gains and losses

1. Class B capital gains and losses generally are those arising where the property has been held for between 6 months and 2 years although it also includes certain gains held for a longer period of time which I will describe shortly. These gains and losses will be treated in the same manner as under existing law; that is, there will be a 50 percent inclusion factor and the gains will be subject to a maximum alternative rate of 25 percent.

2. Class A capital gains are gains or losses from assets held more than 2 years. In the case of these gains, only 40 percent of the gain is included in income and the maximum alternative rate is 21 percent.

B. Capital loss carryover

Capital losses in the case of individuals are first offset against capital gains then to the extent of \$1,000 in the case of individuals both are offset against ordinary income. Then any remaining loss can be carried forward for 5 years. The bill provides that these losses can be carried over until used up instead of merely for 5 years.

C. Gains and losses treated only as class B gains and losses

1. The cutting of timber or the sale of timber where the taxpayer retains an economic interest.

2. Coal royalties.

3. Iron ore royalties.

4. Livestock held for the taxpayer for draft, breeding, or dairy purposes.

5. Unharvested crops.

6. The sale of patent rights by the creator of the patent.

7. Employee termination payments (Louis B. Mayer).

8. Lump sum payments received under the qualified pension, profit-sharing, or stock bonus plans. However, in the case of distributions of employer stock, the class A capital gains treatment will be available when the stock is sold for the appreciation occurring after the distribution to the employee.

20. *Disposition of depreciable real estate*

1. The bill treats as ordinary income a certain percentage of depreciation taken or gains realized (if smaller) but only to the extent the depreciation exceeds straight line depreciation (if the property has been held more than 1 year).

2. The percentages I referred to which determine the "additional" depreciation treated as ordinary income are 100 percent during the first 20 months the property is held and thereafter decreased 1 percent each month until at the end of 10 years, the percentage is reduced to zero.

21. *Income averaging*

1. To be eligible for averaging, the income in the current year must be one-third higher than the average income in the 4 prior years and the amount of this excess must exceed \$3,000.

2. If an individual has any "averageable" income, one-fifth of this income is included in the current year's tax base, a tentative tax determined on this amount and then the result multiplied by 5, added to other tax.

3. Generally, capital gains are left out of account in determining averageable income. The only exception is where capital gains in the base period are greater than in the current year. To the extent they are greater, the amount of income which may be averaged is decreased.

22. *Repeal of tax on consolidated return*

The bill repeals the special 2 percent penalty tax which presently applies to the privilege of filing a consolidated return in the case of a group of affiliated corporations;

namely, those where there is 80 percent common ownership.

23. *Reduction of surtax exemptions in the case of certain controlled corporations*

In the case of a group of corporations where there is 80 percent common control, the bill provides three basic alternatives to these corporations:

1. The corporations in the group may forego the use of multiple surtax exemp-

[P. 16991]

tions; that is, they may each file separate income tax returns and allocate one \$25,000 surtax exemption among the members of the group.

2. Corporations in the group may elect to pay a penalty tax and continue filing separate returns as at the present time. Under this election, each member of the group may claim a separate \$25,000 surtax exemption, but each must also pay an additional tax of 6 percent on the first \$25,000 of its income. With the rates under the bill of 22 percent on the first \$25,000 of income and 50 or 48 percent on income over \$25,000, this means a tax of 28 percent on the first \$25,000 of income for these corporations and the regular 50 percent or 48 percent tax on income over \$25,000.

3. An affiliated group as an alternative to the first two points I have mentioned may as under present law file a consolidated income tax return claiming one surtax exemption for the group and also wiping out all intercompany transactions.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 20 minutes to the gentleman from Missouri [Mr. CURTIS], who in addition to being a member of the Committee on Ways and Means is a member of the Joint Economic Committee.

Mr. CURTIS. Mr. Chairman, much of what the gentleman from Arkansas has said, I agree with fully. In fact, this position that he has been expounding, of fiscal policy and of the necessity for lowering the Federal tax structure has been recognized and advocated on our side for some time. Indeed, it is basic Republican fiscal policy. In fact, it has been recognized by people on both sides in the Congress—before the executive department either under the previous administration, certainly under this one, apparently, recognized it.

The Baker-Herlong bill, and prior to that, what was then the Sadlak-Herlong bill, had one common denominator—that in order to reduce the taxes so as to bring about these very desirable results that the gentleman from Arkansas has so vividly presented, in order to do this it had to be in context with the other side of the budget and not just the revenue side—the expenditure side. Because, let me say this, and the gentleman from Arkansas, the chairman of this committee knows very well and so

does the membership of the House, that when we on the Committee on Ways and Means do not provide the revenue through the tax structure to meet the expenditures of this vast Federal Government, we have to come in with increases in debt limitation bills. We then have to figure out how this Federal Government can market additional Federal bonds and the economic consequences that this brings about. We cannot separate the economic consequences of taxing our people from the economic consequences of selling bonds or marketing Federal bonds either to our people or through our monetary system. Indeed, the economic consequences involved in what we call the problems of debt management in many respects are a great deal more serious than the economic consequences involved in the tax structure itself.

Now this is a matter of judgment—although there are some basic matters of principle involved. I first want to address my attention to the basic matters of principle. I think the chairman of the Committee on Ways and Means is correct when he says that this bill could be the most important matter that this Congress will be passing on in 15 years.

I would say that it would be the most important matter that this Congress has passed upon economically in its history, if we are actually adopting the novel and untried principle that I see involved in this proposal, as it was originally presented to the Congress by the President of the United States.

I know the gentleman from Arkansas does not share the economic theory which lies behind the Presidential presentation of this bill to the House. His statements here on the floor clearly demonstrate that he does not adhere to this theory nor does the Ways and Means Committee majority. Because the majority put into this bill a statement of principle in regard to the expenditure side of the ledger. It has been referred to as a pious hope. I, myself, have referred to it as a pious hope. This statement the majority members placed in this tax bill says that in order for this tax reduction to be meaningful, to bring about employment, to bring about a real increase in the gross national product, to really hit at our problems in our balance of payments and our gold flow, it must be accomplished in the context of expenditure reform.

So at least in words we on the Committee on Ways and Means and those who voted for this bill with that expression of economic policy are in accord. But what is the problem? It is that the proposed Republican motion to recommit

goes beyond mere words that we believe in this economic theory that expenditures must be reduced if we are going to get the economic benefits from a lowering of taxes. It requires some form of action on the part of the President.

The chairman of the Committee on Ways and Means said that the motion to recommit has been presented as a panacea. Oh, it is no panacea. It is an effort to move forward in this area of expenditure so the Congress can develop the machinery so that each year there can be a meaningful legislative budget. The chairman of the Committee on Ways and Means has been a little unfair, I think, in suggesting that those of us who want to develop this congressional machinery are thereby impugning or attacking the integrity of our colleagues or of Congress in its ability to cope with the problem of expenditures and appropriations. There is no such intent, and if we ever get to that kind of reasoning when we try to develop what we believe is good legislative machinery to accomplish results, we will end nowhere.

All of this is an attempt to do what the Congress unsuccessfully tried to do, and we can see how it was unsuccessful in the 1946 Reorganization Act when we created this super-duper budgetary committee consisting of the members of the Committee on Ways and Means and the Senate Committee on Finance and members of the House and Senate Appropriations Committees. The job of this joint congressional committee was—and this is still law, gentlemen, as we all know—to meet and develop a legislative budget with ceilings so that we could cope with this very difficult and complex matter of controlling expenditures at the congressional level. We all know the cumbersome and inadequate manner in which we actually do it. We bring out our appropriation bills individually. Never do we get a collective look at the end to total up all we have done.

As I have so often said, the biggest problem in expenditure reform or control is not cutting out wasteful programs. Any time we can find a program that is wasteful or inefficient, heavens, everyone in the House will join in cutting that out. Our problem there is simply one of identification. The real art of budget control is in trying to establish priorities between good programs, programs that a lot can be said for and which our people probably need or which would certainly be desirable. This requires the recognition, if we are really going to prepare budgets in a firm fashion, that we cannot buy all of the good things and the good programs in any given year. We have to schedule the programs. We do schedule our public

works, as everyone knows. There are a lot of public works bills on the shelf waiting their turn for the time when they can be moved into our budget. How can we establish these priorities?

The proposal here in the tax bill is not the basic way to go about it, but it is a very helpful way to assist. It provides the basic feature needed, an expenditure ceiling. Establishing an expenditure ceiling becomes appropriate and important when we are concerned about our revenue aspects in considering a revenue bill for the purpose of trying to stimulate the economy. The theory behind this bill, aside from the reform features—and I wish we could get into some of these reform features, because there is a lot in this bill which, in my judgment, goes against the very purpose we are seeking in regard to stimulating our economy—but the essential argument behind the bill is to release purchasing power to our people and to our businesses. And as the gentleman from Arkansas, Chairman MILLS, has so adequately expressed it, to give the private sector of our economy an opportunity to move forward. This is the theory on which the tax bill has been presented. The point then becomes this. If we try this kind of stimulative effort in a period when we already are spending more money than we are taking in through our tax structure, how then do we handle the problem or the problems that we create, added problems in the area of debt management? To whom will we sell the bonds during this interim period, even if the theory is sound? And let us take the proponents economic hypothesis that as you bring about this stimulative effect in our increase in the gross national product from which we are to derive the new revenues which eventually will balance the budget—in the interim, how many bonds, how many billions of dollars of bonds will we have to market and how will we market them?

Now we get to this difficult problem that I started to mention, the difference

[P. 16992]

between two basic economic theories. The economic theory expressed by the gentleman from Arkansas, Chairman MILLS, is no different from my own. In other words we both believe we have to have expenditure reform if we are to make the tax cut economically meaningful.

And, Mr. Chairman, let me say this. This is not partisan. The welfare of our country is involved in this and if my arguments are in error I want to have the other side take issue. Let us not put this on the basis of parties, for heaven's

sake. If the gentleman from Arkansas [Mr. MILLS] is correct—and I agree he is, in saying that this is one of the most important economic bills we have ever considered—let us listen to the arguments and the facts, not who says them, and see whether they stand up. I see the consequences of marketing these bonds, as creating inflationary pressures that our society could not under this present fiscal climate contain. The economic theory advanced by the President is different from the theory expounded by the gentleman from Arkansas [Mr. MILLS]. It is that the budget will not be balanced in 1964 or 1965 or 1966 or 1967, possibly 1968. If one goes back to the premise upon which this balance is predicated, I think it is more reasonable to assume that it will be 1972 before we attain these balances.

In the interim we have this problem of marketing these bonds. I directed questions to the President's Council of Economic Advisers when they testified before the Joint Economic Committee on this novel theory of deficit financing a year ago in August. Here is where it stems from. Dr. Heller and his economic group are the ones who have espoused this novel and untried theory that the Congress is being asked to consider. The testimony of Dr. Heller and his group should be read by all Members to fully understand the far-reaching impact of these economic theories. Yesterday I put in the CONGRESSIONAL RECORD, so that anyone interested would have the opportunity to read it, some of the statements of many economists in this country, in regard to the inflationary threats that face this country. Dr. Heller's group ignores these threats and, indeed, generally fail to even evaluate the problems of debt management.

This appears on page 16787 of yesterday's RECORD: "The Inflationary Threat of Tax Cuts With More Federal Spending and Larger Budget Deficits." Chairman DOUGLAS in interrogating Dr. Heller said, on page 16789:

Many people are saying that they would favor a tax cut only if it were compensated for by an equal cut in expenditures.

The question I would like to ask is this: If this were done, would it not take away much of the stimulative effect upon which you count?

Mr. HELLER. Senator, it would take away almost all the stimulative effect. The deficit is the inevitable part of the stimulus that arises from the tax reduction.

Dr. Heller's theory is that we have to view total expenditure, which means Government expenditure and private, to move the economy forward the total expenditure must continue to increase. So, it is argued if you simply shift allo-

cation of expenditures from the governmental sector to the private sector through a tax reduction, thus increasing private expenditure, you water down the effect if you cut Federal expenditures. This is the theory which the gentleman from Arkansas [Mr. MILLS] described, of trying to travel both roads at the same time and which he says he rejects and which he warns the Congress to reject.

These people, those who advocate planned deficits—and they are very sincere people—actually believe that we should be increasing Federal expenditures along with the proposed tax cut. Indeed, that is what the President's budget for 1964 calls for and that is what his budget projection for 1965 calls for. This is the fiscal policy which underlies the President's budget. The President to this very day has not altered this policy of tax cuts in context or increased expenditures. It is the budget the President has called tight. Such description makes words meaningless.

Now, this is still the theory of those who are supporting this tax bill, basically. Let us make no mistake about it. They do not buy Chairman MILL's theory of expenditure reform.

Our distinguished majority leader, the gentleman from Oklahoma [Mr. ALBERT] on last Monday, September 16, placed in the Appendix of the RECORD at page A5817, a statement "AFL-CIO president, George Meany Terms the Tax Bill as on Balance, Desirable, and Necessary."

Mr. Chairman, I am glad that the gentleman from Oklahoma sponsored this statement, because it gives more authenticity to what I am trying to say to the members of the committee, that the basic support behind this bill is not the support of those who adhere to the philosophy which the gentleman from Arkansas [Mr. MILLS] has expressed.

Mr. Chairman, I shall read a portion of the statement, as follows:

Unfortunately, in recent weeks, there have been repeated demands that any tax cut at this time be tied to major cuts in the Federal budget. Undoubtedly an effort will be made on the floor of the House of Representatives to make tax cuts contingent upon budget slashing.

Such a move would be deplorable, it would absolutely defeat the purpose of a tax cut. Instead of stimulating the economy, a large reduction in Federal expenditures would merely nullify the beneficial effects of the tax bill and would contract economic activity.

Yesterday, Mr. Chairman, one of my colleagues was kind enough to place it in the RECORD, the remarks I made on NBC-TV Saturday night. In these remarks I referred to a document being circulated by the U.S. Department of

Commerce. This appears in the RECORD now on page A5976:

U.S. DEPARTMENT OF COMMERCE,
Business and Defense Services Administration,
Washington, D.C., September 6,
1963.

To: Assistant administrators, office directors,
division directors, staff officials.

From: Paul W. McCann, Assistant Administrator,
Industrial Analysis.

Subject: The tax reduction and reform in
1963.

Here is the gospel of the Kennedy administration:

A major reduction of Federal expenditures would almost eliminate the stimulus effects of the bill.

The difficulty in debating this novel economic and fiscal policy publicly and here on the floor of the House lies in the fact that those who originated the tax cut were not originating it on the same philosophy advanced by the gentleman from Arkansas [Mr. MILLS] who is here defending it. None of the advocates of this dangerous fiscal theory are here to support their theory and engage in straight forward debate. They hide behind the strength and character of the gentleman from Arkansas, Chairman MILLS, the philosophy that I have advanced and tried to advance over a period of years for the need of tax cutting because it was an impediment to economic growth and to our system lay in context with expenditure controls and balanced budgets.

The contrary philosophy can be found in its purest form in the presidential message of last year requesting the Congress to give him a quickie tax cut. The theory was a shot-in-the-arm kind of thing to stimulate the economy at the same time and not touching or doing anything with expenditures except to increase them. There is no question that this is the theory of Dr. Heller and the Presidential advisers. Yesterday I placed in the RECORD a discussion of some of the economic assumptions which lie behind the quickie tax cut and the present tax proposal to stimulate the economy. It is headed "Analysis of the Administration's 'Gap' Theory" and appears on page 16762 of September 23, CONGRESSIONAL RECORD.

Let me remind my colleagues of the efforts being made to disarm the fears of our people in regard to debt and deficits. This attack has been going on for months and is part of the overall war being waged against the peoples' Puritan ethic. How many of you heard the President in his TV and radio address to the Nation Wednesday night refer to the fact that the Federal debt need not worry us too much because as a ratio of gross national product today it is considerably less than

it was in 1946? What has the year 1946 got to do with it? Why was this year chosen as the benchmark? That is the year when we had the highest debt attained as the result of World War II. If we want to get comparable figures let us relate the percentage of the Federal debt to the gross national product in a peacetime year, or a peacetime period, the thirties, the twenties, and before. We find after 17 years since the war has been over we still do not have this debt near the level of any other period of peacetime.

The CHAIRMAN. The time of the gentleman from Missouri has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield the gentleman from Missouri 10 additional minutes.

Mr. CURTIS. Mr. Chairman, as a matter of fact, if we will analyze how we get most of that lower ratio it is nothing to be proud of—World War II inflation, cutting the purchasing power

[P. 16993]

of the dollar in half did it. The gross national product is measured in the current dollar, the cheap dollar, but the debt being in the dollar signs of that time remains constant.

The gross national product did not really go up in real dollars in that sense. It went up in the inflation. But why was the President intent on dispelling what he regarded as unjustified fears on the part of our people in regard to the size of the Federal debt and its management? It is because the President did adhere, and apparently still does adhere to the novel theory that you can stimulate the economy and you can get growth through increased Federal expenditures and tax cuts coming about at the same time. I call the attention of my colleagues to my remarks appearing on page 13,333 of the August 5 CONGRESSIONAL RECORD entitled "U.S. Balance-of-Payments Problems," when I discuss the fallacies in the various arguments used by the President and his advisors in minimizing the deleterious economic consequences of our large Federal debt. It is this novel theory of planned deficit financing I wish we had a national debate on. This theory was first presented to the Joint Economic Committee in July a year ago. It was around the same time the President made his speech at Yale and said we should have a national debate on what he termed "the warnout Shibboleths our people adhered to" and Dr. Heller later referred to as our Puritan ethic. This fiscal theory, or popular ethic, is simply that we have to live within our budgets. But then when those of us wanted to join the de-

bate, the President called for, found the bold New Frontiersmen falling back on these so-called Shibboleths and the maligned Puritan ethic. President Kennedy now mouths the words that he too is for expenditure reform and balanced budgets. But what is the impact of decreasing taxes in context with increasing expenditures, what are the problems involved in debt management, to this day the President has avoided the issue, and not taken it up.

Dr. Heller said, when I asked him, during one of his appearances before the Joint Economic Committee, "Where would you market these bonds?" he answered in agreement with what I was saying to him:

I agree with you; you cannot sell these bonds to the private sector, to private people, and to business because if you did you would take away the stimulative effect of this tax cut.

He said he would expect our banks would take up the bulk of these bonds.

So I posed this same question to Chairman Martin of the Federal Reserve Board, and Chairman Martin said then, and he has reiterated it since then, that if the Federal Reserve System took up these bonds in this fashion it would create inflationary pressures that we could not withstand. If the Consumer Price Index—and that is one of the ways we measure inflation or the purchasing power of the dollar—were to go up 6 points, and it went up approximately 4 points, a little less, in the period President Kennedy has been in office, and for the last 2 months for which we have records, June and July of this year, it went up nine-tenths of a point, the highest increase in 4 years. If the Consumer Price Index went up 6 points, and it could go up that much easily, under these new inflationary pressures resulting from this tax cut without expenditure reform, we would take out of the consumer purchasing power about \$27 billion. For an \$11 billion tax cut, which is to stimulate purchasing power, we would cut purchasing power \$27 billion through devaluing the dollar.

Here is the area where the debate should lie. Up to this point the debate has not been around this very critical area. What is the effect on the problem that we have in debt management. These are where the inflationary pressures primarily arise.

I again refer to my remarks that I put in the RECORD last night so that they would be available today, the analysis of the inflationary forces that are extant today. In the judgment of these various economists inflation is becoming the critical problem. And that is without

a tax cut increasing Federal deficits and adding to our Federal debt.

This is what I think this House must direct its attention to, to determine whether in its judgment we can devise in any way a mechanism, not a panacea, but a mechanism that will help us in some degree to get on top of our expenditures, to put on a ceiling. The ceiling proposed is not one that is out of line; in fact, there are many who argue that it is too high. I think it is too high. I think it is considerably too high. But I recognize that it is a ceiling, and that if our Appropriation Committees are able to do their job they are going to be below this ceiling, and that is what I hope we will do. But one thing for sure, we will then have established in the Congress a mechanism whereby we can exercise our collective judgment on what the total expenditures may be in a particular year.

Then I hope we go on further to assume our responsibility, the difficult job of establishing priorities in expenditures, when we say we cannot spend more than \$97 billion this year in the light of our revenue and in the light of our debt already and the problems in debt management, then we must say what programs we will have to put on the shelf.

Do we have to go to the moon this quickly? We had to make a similar decision in the Committee on Ways and Means on the Highway Act, and we decided that it was better for reasons of limited revenues to stretch that program for a finishing date by a couple of years. These are the hard realities of trying to establish priorities in expenditures, the Appropriation Committees and all of us must have a ceiling imposed by ourselves, by Congress, to limit our expenditures. We propose such a ceiling in the tax bill, because of the desire to create this economic stimulus and to move our society forward. This expenditure control technique is available to us. It is not the best there could be but it certainly is a tremendous step forward and coupled with our newly acquired knowledge of law to use the debt ceiling for expenditure control it becomes of great assistance to our appropriations process.

In the light of that, I trust that those who want this tax reduction, and indeed I think our economy needs it if we are going to move forward the way all of us want to move forward—we will have it if we will earn it. We can earn it by exercising expenditure reform.

Mr. HALLECK. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Indiana.

Mr. HALLECK. I want to commend the gentleman for his statement. May I say first that I was the majority leader in two Congresses. They were both Republican, the 80th and the 83d. In those Congresses in my time here, which is now approaching 30 years, we gave the American people the only meaningful tax reduction that they have had in my time. We did it after we had cut expenditures and balanced the budget.

The principal reason I asked the gentleman to yield is simply to say this. We had a record vote on the adoption of the rule. Some of the Members on both sides of the aisle do not like closed rules. It so happens that when I have been in the majority and the minority I have supported such closed rules. The vote, of course, was quite decisive for the consideration of this measure, and that is as I think it should be.

But I just want to say at this point, in order that there be no misunderstanding, I am going to support the motion to recommit when it is offered, and I have high hopes that it will be adopted. I think it should be adopted. I think it is a move in the direction of fiscal responsibility and at the same time providing for a tax cut within any sort of reasonable amount. I want also to say this, that the vote on the rule should not be taken as any indication of what is finally going to happen on the passage of this bill, if the motion to recommit does not prevail. My view is that if the motion to recommit does not prevail, the passage of this bill, as it is presently written, when it comes to the final vote, may be in very, very serious jeopardy.

Mr. CURTIS. I want to thank the gentleman, the gentleman from Indiana, the distinguished minority leader, and observe that indeed these two tax cuts that the gentleman referred to did stimulate the economy, but in context with expenditure reform, thereby contradicting the theory that Dr. Heller insists on. One other thing, I might note, Dr. Heller was part of a team that went over to Western Germany right after World War II to advise them on their fiscal policy. The team gave them the same advice that Dr. Heller has given to the President of the United States here, deficit financing to stimulate the economy. The Western Germans saw fit to reject that advice and adhere to this puritan philosophy of cutting their expenditures and getting their deficit balances down. Western Germany did have an enviable period of economic recovery and growth as we all know. The question is not one of believing or not believing the President of the United States any more than

[P. 16994]

it is a question of believing or disbelieving the integrity of the Congress or of any individual Congressman. It comes down to the business of setting up the mechanism for budget and expenditure control so that we can move forward with the Nation's business. It also comes down to a test of whether we are to adhere to the fiscal policy traditional to our country or move to a novel and untried one.

If the President really means what he says about expenditure reform, and let us take him at his word, why has he advised the Democrats in Congress to vote against tying it in with a legislative budget technique such as is being proposed, particularly when the new technique is to be utilized in such a mild manner, too mild a manner, I say?

Mr. JONES of Missouri. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. JONES of Missouri. Do you not think it would be preferable, then, for the Congress to accept its responsibility and reduce expenditures and bring the budget in balance, and then we would be justified in a tax reduction?

Mr. CURTIS. I think that, of course, is a preferable route, but unfortunately it is not available to us. So I suggest to take this step that is presently available and to continue working along the lines that the gentleman from Missouri stated and work toward that. The expenditure control technique would be quite an encouragement and help us even to go further in our normal appropriation process.

The CHAIRMAN. The time of the gentleman has expired.

Mr. KEOGH. Mr. Chairman, I yield such time as he may consume to the gentleman from Pennsylvania [Mr. BARRETT].

Mr. BARRETT. Mr. Chairman, I wholeheartedly support the President's plea and program for a tax reduction at this time and, therefore, pledge my vote for H.R. 8363, the Revenue Act of 1963, which is now under consideration by the House.

There is a crying need for a tax reduction now—and especially so in the Philadelphia area where economic conditions are not as good as they should be. While the country's economy as a whole has improved over the past 2 years, there are still some areas in need of help. Metropolitan Philadelphia is such an area where 6.7 percent of the total labor force of 1,888,600 workers are still unemployed. In other words, as of this past July, 127,100 men and women were seeking employment.

During the past few weeks, I have received hundreds of letters from constituents in the First Congressional District—Democrat and Republican alike—urging me to vote for a tax cut this year. Here, in part, are a few of the sentiments expressed:

I am a registered Republican and 100 percent in favor of the President's tax cut. I would appreciate you, as a Representative of the little people, supporting this bill.

We are registered Democrats and are 100 percent in favor of the President's tax cut bill.

I think a tax cut this year is most desirable for our country. Please support President Kennedy's tax bill as is.

I favor the tax cut and am hopeful that the House will adopt it.

Mr. Chairman, while it is true a tax cut will not solve our country's unemployment problem immediately, it will put additional money into circulation. This will create increased buying and, in turn, the demand for more products will be greater. In the end, industry will need to employ additional people to meet the demands for additional products.

The structure of the President's tax proposal is very sound and the House Committee on Ways and Means spent many months drafting H.R. 8363 so its provisions will benefit every American citizen, including big business.

I have heard some comments against the bill and cannot for the life of me understand why any one individual or any organization or business would oppose it. It is designed to put extra dollars into the pocket of every working man and woman. Is this a sin? It is not to my way of thinking and I am sure I do not stand alone in this belief.

Mr. Chairman, now is the time to do something for the American taxpayer and citizen. Prices are sky-high and the cost of living continues to rise. The only item that does not increase as rapidly is the paycheck. Let us do something about it. The Revenue Act of 1963 is the answer and the solution.

Mr. KEOGH. Mr. Chairman, I yield myself 15 minutes.

(Mr. KEOGH asked and was given permission to revise and extend his remarks.)

Mr. KEOGH. Mr. Chairman, at this hour on this momentous and historic day, it is rather difficult for me to follow the great giants whom you have heard, one of whom, Mr. Chairman, is the great and distinguished and obviously learned and eloquent chairman of the Committee on Ways and Means. His speech, in my opinion, and his remarks

of today in this committee will long be remembered by many people beyond this day and age.

However, Mr. Chairman, those of us privileged to serve under him are quite accustomed to regular and continually impressive displays of his dedication to duty, of his public service and, if I may add this, of his coruscating brilliance, the latter being a quality possessed by very few, and there is only one other whom I know in Washington who has it. So, Mr. Chairman, it is with a sense of complete comfort that those of us on the majority side follow in the glowing, lighted, learned way of our distinguished chairman.

It has, Mr. Chairman, as you well know, been continuously and truly said that legislation involves the "art of the possible." In every instance where major proposals, such as the momentous one pending before us today, have been presented to this Congress by a standing committee of the House there is obviously and necessarily involved a considerable degree of concession on all sides. It is rare, rare, that any member of a standing committee having jurisdiction of as vital and sensitive a subject as our committee has can come before the Committee of the Whole and say to its members that "with every provision of this bill I am in complete mental agreement." The nature of our legislative process is such that decisions must be made in order that legislation might move forward. This is as it should be, and this, Mr. Chairman, is the representative way. So it is today with this most comprehensive and most important piece of legislation now pending before the committee.

As has been so ably described by our distinguished chairman, there are 23 major structural changes in the pending bill. Obviously these changes will have varying degrees of impact upon different sectors of our economy and different groups of our taxpayers. In addition to the salutary effect of tax reduction, many of these changes will be favorable to many of the taxpayers of the country. However, Mr. Chairman, candor compels me to direct the attention of the committee to two examples to which I shall allude but briefly. These are examples of the point that legislation involves give and take and that we cannot subscribe 100 percent to every detail in a measure as large and as broad as this 300-page bill.

There are provisions in the bill which will have a direct and an immediate impact on taxpayers who receive their income in whole or in part from dividends. In 1962, Mr. Chairman, it was estimated that there were some 17 million indi-

vidual shareholders in the United States, or 1 out of every 6 of the adults in the entire country. Of these there were 2,340,000 in New York State, and there were 1,639,000 in my city of New York alone. In other words, nearly 10 percent of all the shareholders in the United States reside in the city of New York. These dividend recipients in New York City in the year 1961 received nearly \$2 billion in dividends. I cite these figures, Mr. Chairman, to show the importance to the city of New York the area which I have the high honor to represent of the provisions of the bill relating to dividend income and the income from the sale and exchange of securities.

The President's original recommendation provided for a decrease from 50 to 30 percent inclusion in the portion of long-term capital gains to be included in income and an extension of the holding period from 6 months to 1 year. Our Committee on Ways and Means tentatively agreed to the 30 percent inclusion factor and subsequently, by reason of a fuller and fair consideration of all the problems with which the committee was faced, that percentage was increased to 40.

As a result of that, Mr. Chairman, I might very well say, as some members of the committee might, that this is a provision to which I cannot give my assent. But this, Mr. Chairman, I shall not do.

Secondly, the administration recommended the repeal of the dividend credit and exclusion, but our committee did not go that far. It did provide for a reduction in the credit next year and its repeal in the following year, with a slight [P. 16995]

increase in the amount of the dividend received to be excluded.

Here, too, is a provision that falls with great impact upon the area from which I come and here, too, would be a provision that I could say with force and I hope with logic that my people should not assume to bear. But I stand here today, Mr. Chairman, and say that I do not do that, and I would not do that for these two provisions are integral parts of the whole plan, a plan that has been conceded by all, by labor, by management, by the AFL-CIO, by the Businessmen's Committee for Tax Reduction, by the chambers of commerce, and by small businessmen's associations to be a work that has been accomplished by our committee that does substantial justice, not to one, not to a few, but to all the taxpayers of the country.

Now, Mr. Chairman, I turn to a major provision of this legislation which I had

the honor of sponsoring in bill form even before H.R. 8363 came into being. I refer to the repeal of the reduction-in-basis provision which was added to the investment credit section of the Revenue Act of 1962 by the other body—commonly referred to as the "Long amendment" to the investment credit provision. May I refresh the recollection of the Members of the House by a quick review of what was intended to be accomplished by the investment credit provision itself and what has happened since the enactment even with the restrictive Long amendment included in it.

In the report of the Committee on Ways and Means on the Revenue Act of 1962, it was stated that the investment credit provision, coupled with liberalized depreciation:

Will provide a strong and lasting stimulus to a high rate of economic growth and will provide an incentive to invest comparable to those available elsewhere in the rapidly growing industrial nations of the free world.

That same committee report explained that:

The investment credit will stimulate investment because—as a direct offset against the tax otherwise payable—it will reduce the cost of acquiring depreciable assets. This reduced cost will stimulate additional investment since it increases the expected profit from their use. The investment credit will also encourage investment because it increases funds available for investment. * * * Moreover, since the credit applies only to newly acquired assets, the incentive effect is concentrated on new investment.

That same committee report explained that:

The investment credit will stimulate investment because—as a direct offset against a tax otherwise payable—it will reduce the cost of acquiring depreciable assets.

Mr. Chairman, it cannot be gainsaid by anyone that one of the tremendous problems with which the economy of this country has been faced since postwar is the modernization of its plant and equipment.

Mr. Chairman, nothing could be clearer than that the intention of the Committee on Ways and Means and the Congress in enacting the investment credit was to increase incentive for American business for investment. The so-called Long amendment was not a part of the investment credit in the form in which that provision passed this body, as I stated, but was added in the other body and was accepted in conference over the strong objections of a number of the House conferees. It was maintained then by some of your House conferees, including myself, that the Long amendment would be restrictive in nature and

would indeed dull the stimulus which was envisioned by the investment credit provision itself.

Mr. Chairman, experience has indeed borne out not only the prediction of the Committee on Ways and Means with respect to what the investment credit would accomplish, but it has also borne out the prediction which some of us made with respect to the restrictive nature of the reduction-in-basis amendment.

There is absolutely no question but that the investment credit has proved to be a strong stimulus to the economy. Many businessmen and economists attribute the current high rate of economic activity, particularly the upswing in orders for machine tools and other equipment, to this new provision. A survey released as early as April of this year by McGraw-Hill indicated that, of the increase in planned investment of businesses for 1963, more than 42 percent was to be directly attributable to the investment credit and the depreciation reform adopted last year.

However, it might well be said that the success of the investment credit occurred despite the fact that its full incentive effect is impaired by the reduction-in-basis amendment. Therefore, the repeal of this reduction-in-basis restrictive amendment, as provided in the pending bill, will make the investment credit even more effective in reaching its desired objective. This change will almost double the impact of the credit and the added incentive provided by the repeal will give a substantial boost to modernization of obsolete facilities, thereby enabling our business to compete more favorably in world markets, which is so urgently needed now.

Mr. Chairman, some of us predicted in the conference with the other body last year that the addition of the reduced basis amendment would not only dull the stimulating effect of the investment credit itself, but also would lead to untold complexity and confusion in accounting procedures, adding cost and redtape to our already overburdened business reporting requirements. This prediction was borne out in the hearings which the Committee on Ways and Means conducted on the President's 1963 tax message this spring. Many groups and individual businessmen stated that the bookkeeping confusion which had resulted from the Long amendment was costly, time consuming, and unnecessarily complex. Particularly it was true that the thousands of small businesses have found it extremely difficult to cope with these additional burdens. Therefore, the repeal of this

amendment will particularly facilitate the use of the investment credit by small business. The National Small Businessmen's Association likewise urged appeal of this provision, stating that it:

Has been the cause of an enormous loss of valuable time, dissension within the accounting profession, and confusion and uncertainty on the part of the businessmen and corporate managements. The only result has been to reduce, in large part, the intended incentive effect of the tax credit.

The pending bill, Mr. Chairman, provides for the repeal of that amendment. And, if I may be permitted just a moment to point out what I think is an inconsistent position on the part of our distinguished friends who signed the separate minority views, they have contended that the repeal of this investment credit amendment would provide what they term a "loophole." We dispute that as vigorously as we can. But we remind them that throughout the public hearings on this bill, we remind them that throughout the executive sessions on this bill, they had consistently and continuously sought to urge upon the majority of the committee the adoption of a theory that would encourage investment in plant and equipment so as a better method to provide the jobs which we all realize are needed and will be needed in the future. They had preferred then an investment in plant and equipment rather than an increase in the consumer purchasing power of the country.

Mr. Chairman, we have here provided just that. In their eagerness or in their despair, whichever it is, to come to some disagreement with the majority of the committee they have obviously seized upon an inconsistent position and have sought in their minority views—I would say quite unintentionally and with the high purposes that prompt all their every word and action—they have sought to mislead the membership of this committee and of the House that in our doing what we did in the pending bill we have sought to give an unfair advantage or a bonanza, or hesitating as I do to use an overabused and much misunderstood and frequently and erroneously applied word, a loophole to business.

Well, Mr. Chairman, if we can encourage the modernization of plant and equipment in this country as we have under the limited effects of the Revenue Act of 1962, if we can increase that modernization, if we can do all these things, then, Mr. Chairman, I say that is reason to support this particular provision in the bill and not to oppose it.

Mr. Chairman, there is another provision of this bill to which I should allude before closing: the so-called in-

come averaging provision. We have all recognized for quite some time that taxpayers whose incomes fluctuate widely from year to year because of the nature of their particular employment or self-employment may pay more tax than others who receive an identical total income in a steady amount. In the past, we have undertaken to alleviate the hardship resulting from this situation by writing into the law provisions to cover specific types of situations. Admittedly, these relief provisions did not reach all [P. 16996]

of the cases which should have been reached.

The provision which we have included in this bill is a much broader income averaging provision and for this reason will be of benefit to a much larger number of people whose incomes, because of reasons beyond their control, widely fluctuate from year to year. In particular, it should be of benefit to authors, professional artists, actors, athletes, farmers, ranchers, fishermen, attorneys, architects and proprietors of various types of small business. The operation of the provision has already been explained by our distinguished chairman and is covered in full detail in the committee report. I will not here repeat that explanation, but I did want to advise the Members of the House that this provision should be of more widespread application than the provisions contained in existing law on this subject.

Mr. Chairman, as I have indicated, this is a very large and comprehensive bill. It contains many structural changes over and above the overriding rate changes which will benefit practically every American taxpayer. I strongly support the bill. It will provide a strong stimulus to our economy. It will remove the restrictions which for years have burdened our taxpayers and our American business.

Mr. Chairman, indeed, this is an historic day in the House of Representatives. This is a great Committee of the Whole considering a measure which in my opinion will long be looked back on as the cornerstone and the bedrock upon which has been erected an economic superstructure that will do justice and will do credit to this Congress and many more to follow.

I urge, therefore, Mr. Chairman, that the Committee unanimously, if possible, support this bill after resoundingly rejecting whatever motion to recommit may come.

Mr. GROSS. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] Fifty-eight Members are present, not a quorum.

The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 152]

Ashley	Hawkins	Pillion
Auchincloss	Hébert	Powell
Avery	Hollifield	Price
Blatnik	Hosmer	Quillen
Boggs	Hull	Rooney, Pa.
Bolling	Kee	Ryan, N.Y.
Celler	Kelly	St. George
Cunningham	Kilburn	St. Onge
Curtis	Lipscomb	Shelley
Daniels	Lloyd	Springer
Davis, Tenn.	Long, La.	Steed
Dawson	Long, Md.	Thompson, La.
Dole	McFall	Whitener
Dorn	Mailliard	Willis
Gary	Morse	Wilson, Bob
Gubser	O'Brien, Ill.	Wilson,
Hanna	Passman	Charles H.

Accordingly, the Committee rose; and the Speaker pro tempore having resumed the chair, Mr. ROOSEVELT, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 8363), and finding itself without a quorum, he directed the roll to be called, when 382 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

Mr. BAKER. Mr. Chairman, I yield myself 20 minutes.

(Mr. BAKER asked and was given permission to revise and extend his remarks.)

Mr. BAKER. Mr. Chairman, the Ways and Means Committee has worked in public hearings and executive session for 8 months undertaking to develop a tax reduction and tax revision bill, the enactment of which would be in the national interest.

We eliminated some of the most objectionable features of the President's proposals: notably the 5-percent floor under itemized deductions which would have resulted in denial of \$2.3 billion deductions to all taxpayers who avail themselves of the itemized deductions provisions of the revenue laws, and the carryover of the decedent's base in respect to capital gains, which would have added an additional annual "death tax" of \$170 million and which would have rendered insolvent many small and medium-sized estates, which to me were the most objectionable of the proposals presented by the Treasury Department.

H.R. 8363, designated the "Revenue Act of 1963," consisting of 310 printed pages, represents the product of this massive undertaking.

While I do not agree with all parts of

the rate structure and believe that it could have been more equitably formulated, yet the rate schedule provided in H.R. 8363 is so far preferable to existing law that I am in active support thereof. The present range of individual rates from 20 to 91 percent, are reduced to 16 to 77 percent effective January 1, 1964, and from 14 to 70 percent effective January 1, 1965, and thereafter. The present corporate rate of 52 percent would be reduced to 50 percent on January 1, 1964, and to 48 percent on January 1, 1965, and thereafter.

While I would favor more substantial reduction in the corporate rates, this 4-percentage-point reduction will be very helpful in stimulating the economy and no longer will the U.S. Government be the major partner in distribution of the earned profits of corporations. The reduced individual rates in the various brackets will be most helpful to individually owned business enterprises and partnerships, and will likewise materially stimulate the economy.

Upon the basis of past financial history of the United States and of other nations, notably our neighbor to the north, Canada, it is my considered judgment that these proposed tax rate reductions will release the brakes on the economy to such extent that after 2 full years of operation, substantially more revenue will be derived from the rates scheduled in H.R. 8363 than under the rates provided for in existing law.

So, I support the reduced rates provided for in this bill, but I do so with one vital and ultraimportant reservation; that is, that Federal expenditures be held to a level not to exceed \$97 billion for the fiscal year ending June 30, 1964, and to an amount not to exceed \$98 billion for the fiscal year ending June 30, 1965.

At the conclusion of general debate and prior to a vote on passage of the bill, a motion to recommit the bill to the Ways and Means Committee with instructions to forthwith report an amendment to that effect will be offered in substantially the following language:

Page 27, after line 23, insert:

"SEC. 133. REDUCTION OF TAX RATES CONTINGENT ON EXPENDITURE CONTROL.

"(a) GENERAL RULE.—The amendments made by this title and title III shall not take effect unless the Budget of the United States Government which is required by section 201(a) of the Budget and Accounting Act, 1921 (31 U.S.C., sec. 11(a)), to be transmitted to the Congress during the first fifteen days of the regular session of the Congress beginning in 1964 sets forth—

"(1) an amount not in excess of \$97,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1964, and

"(2) an amount not in excess of \$98,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1965.

"(b) EFFECT OF PRIOR PUBLICATION.—If the President—

"(1) determines that the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, which will be set forth in the budget referred to in subsection (a) meet the requirements of paragraphs (1) and (2) of subsection (a), and

"(2) causes such amounts to be published in the Federal Register before the date on which such budget is transmitted to the Congress,

then the contingency provided by subsection (a) shall be treated as satisfied.

"(c) EFFECTIVE DATE OF WITHHOLDING.—Notwithstanding section 302(d), the amendments made by section 302 (and the provisions of the Internal Revenue Code of 1954 amended by such section) shall not apply with respect to amounts paid before the thirtieth day after whichever of the following dates is the earlier: The date on which a budget referred to in subsection (a) which meets the requirements of paragraphs (1) and (2) thereof is transmitted to the Congress, or the date on which the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, are published in the Federal Register pursuant to subsection (b)."

I am actively supporting this motion to recommit, and if it is adopted by this House, I shall vote for the bill on final passage.

There is an old saying which is still a true one that, "You can't have your cake and eat it, too." It is equally true that everything of value has its price in some form.

At this time in our Nation's history, when the Federal Government is operating heavily in the red, the price of tax reduction is restraint on spending; giving up at least temporarily Federal projects, however much to be desired and for the common good, in order to obtain reduced Federal taxes now and permanently.

It is simply a question of priority. If you have a leaky roof on your home and also an automobile which is slow to start,

[P. 16997]

which you would like very much to trade for one of the new 1964 models, would you in the exercise of good commonsense and prudence choose the 1964 model automobile, or would you repair the roof on your house, saving the structure from deterioration?

This bill presents to this Congress a decision which will be felt for decades ahead, for, in my opinion, if we do not obtain tax reduction now after these months of hearings and effort on the

part of the Ways and Means Committee, there will be no tax reduction, probably not even a tax reduction bill, within the next 10 years.

In my judgment, it is equally true that to vote a reduction in Federal taxes, which involves adding \$11 billion deficit onto the existing deficit and larger deficits in the future, would cause the Nation's economy to go into a tailspin and could well result in financial chaos at home and abroad.

I do not support the amendment sought to be made a part of the bill by the motion to recommit as a partisan, political measure. I envision this amendment as a pact between the Congress, which has the inherent and exclusive constitutional power to levy taxes and make appropriations, and the President and executive department, which spends the money appropriated by Congress, to the effect that the excessive burden of Federal taxes will be reduced as provided in the bill, with the clear understanding and positive agreement between the legislative and executive departments that, short of actual war or extreme national emergency, the level of Federal expenditures shall not exceed \$97 billion for the fiscal year ending June 30, 1964, and shall not exceed \$98 billion in the period from July 1, 1964, to June 30, 1965.

If this amendment is enacted into law, the President has two alternatives; that is, he can submit expenditure budgets in accordance therewith and the entire tax cut will go into effect January 1, 1964. Or, in the exercise of his discretion, the President may submit expenditure budgets in excess of the stipulated amounts, and none of the tax reductions will take effect. If the President elects to submit expenditure budgets not in excess of the amounts provided for in the amendment, then, as I see it, the Congress would be morally bound to keep its part of the pact and to limit appropriations accordingly.

We are in a period of relative prosperity. Surely in order to obtain this reduction in Federal taxes, the Congress, the executive department, and the people of the United States should be willing to hold expenditure levels to \$97 billion for the fiscal year ending June 30, 1964, and \$98 billion during the period from July 1, 1964, to June 30, 1965, the highest level of peacetime expenditures in the history of the United States.

I am convinced that the great majority of the people of this country share my view in this connection.

The President of the United States on September 10, 1963, speaking before the National Conference on Tax Reduc-

tion, made this statement. "This administration is not opposed to expenditure control," and in his letter of August 19 to the gentleman from Arkansas, Chairman WILBUR MILLS, the President said:

Tax reduction must also, therefore, be accompanied by the exercise of an even tighter rein on Federal expenditures, limiting outlays to only those expenditures which meet strict criteria of national need.

The Business Committee for Tax Reduction recently stated as follows:

Failure on the part of the Congress and the administration to establish and adhere to rigid expenditure discipline could well negate the good emanating from tax reduction.

And that—

Federal expenditures are, of course, a joint responsibility of the Congress in appropriating money and the administration in its expenditure.

For a number of years the gentleman from Florida [Mr. HERLONG] and I have introduced comprehensive tax reduction and reform bills firmly tied by statute to expenditure control.

When H.R. 8363 was being considered by the committee, I offered an amendment embracing this basic concept, which amendment lacked one vote of being adopted—the vote being 12 ayes and 13 nays. A somewhat different version of the amendment was offered by my colleague from Wisconsin [Mr. BYRNES] and this amendment lacked 1 vote of adoption—the vote being 11 ayes and 12 nays.

The amendments which the gentleman from Wisconsin [Mr. BYRNES] and I offered in the committee were more restrictive and mandatory than the amendment to be offered to this bill, but they applied only to the second phase of tax reduction.

I submit that the amendment which will be the basis of the motion to recommit is reasonable and in a spirit of cooperation and mutual trust upon the part of the Congress and the executive department. Its adoption will be in the national interest and will assure, in my opinion, passage of this bill by an overwhelming vote.

I agree with President Kennedy that this bill now being considered by the House is the most important domestic measure which has been before the Congress in the past 15 years. The issues as presented far transcend party lines and must not be determined on a partisan basis.

Mr. ROBISON. Mr. Chairman, will the gentleman yield?

Mr. BAKER. I yield to the gentleman from New York.

Mr. ROBISON. Mr. Chairman, I have been a cosponsor for several years of the so-called Herlong-Baker tax bills. I would like at this point to commend the gentleman from Tennessee for his leadership in attempting to tie tax reduction to better congressional control of Federal expenditures. It seems to me that the gentleman made a powerful argument for the recommittal motion that will be offered tomorrow. I ask the gentleman if he would also desire to comment on that provision in the bill in which I believe I helped to originate the idea that our senior citizens would be granted some relief in the event they are forced to sell what is for many of them the principal asset of their estate—their home.

Mr. BAKER. That provision is in the bill. The gentleman from New York and I introduced that feature. It provides that the first \$20,000 of the selling price of the home of a person 65 years of age or over shall be exempt from Federal tax. It will be a tremendous benefit to the aged population of this country, and it will stimulate home sales because of that.

I would like to add one thing to the statement of a while ago. I offered in the committee an expenditure control amendment in somewhat different form from this and a little bit more mandatory. It was mandatory as to the second year of the tax cut. It is based on the net U.S. debt as of June 30, 1964, which translated to \$303 billion, was based on an expenditure level of \$97 billion. It was defeated by one vote—12 to 13. My colleague from Wisconsin [Mr. BYRNES], a few days later offered an amendment with a slightly different version of the dollar amount, which was defeated by one vote. I mention that only to show that this is nothing novel, it is nothing revolutionary. It has been considered by the committee over and over again. It is sound principle that we who vote the money, we who levy the tax, the entire source and fountainhead of the tax levy, have a right to say to the Executive in a spirit of cooperation, "We do this contingent upon this reasonable contingency."

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the distinguished gentleman from Michigan [Mrs. GRIFFITHS].

(Mrs. GRIFFITHS asked and was given permission to revise and extend her remarks.)

Mrs. GRIFFITHS. Mr. Chairman, I support this bill. However, I have received many letters from people in my district and throughout the country saying roughly, "Much as I would like a tax cut why don't we pay the bills, balance

the budget, and forget about the tax cut for a while. This is the way I would run my household." In my judgment, these people deserve an answer.

When the budget was presented this year, the President estimated a deficit of \$11.9 billion. Now, if you found in your household budget that you were going to run short of money, you might find a way to increase your income. So I asked Mr. Gordon, the Budget Director, when he appeared before the Joint Economic Committee, how much we would have to increase taxes to balance the budget to pay that \$11.9 billion. After some research, he forwarded the reply that in order to secure \$11.9 billion you would have to increase taxes a sufficient amount to bring in an estimated \$20 billion, or roughly \$400 per taxpayer. The Government's decision therefore would confront every taxpayer with a problem. How would he find the \$400 additional to pay the Government. Many anticipated purchases would have to be forgotten. As those purchases ceased in 50 million households, the amount that corporations are making would decrease as

[P. 16998]

would their taxes. The number of people employed would decrease. They would go off the tax rolls. It is not difficult, therefore, to understand what the problem would be in balancing the budget by increasing taxes, nor what the effect would be upon individuals and upon businesses.

Perhaps as a householder you might take another route. Perhaps you would decrease expenses. I then asked Mr. Gordon how much we would have to decrease the outgo to balance the budget. He again replied, that it would have to decrease by roughly \$20 billion.

Surely, no one has any problem in seeing that this would remove people from both payrolls and tax rolls thus reducing the Government's income. To at least the extent of balancing the budget, your household budget and the Nation's budget are not alike: because the effect of the action to make them balance is not the same.

The effect of my husband's doubling his income in any one year would be very nice for us and it would have very little effect upon the rest of you unless we happen to bank our money in your bank or buy from your store, in which case there would be some small effect on you. The effect of the Government in deciding to double its income by increasing taxes would be to bankrupt many businesses and to throw many people out of work. The Government does not exist to bankrupt its people. The effect of

my husband's failing to spend any of his income would be very small upon the life or lives of any other person. A few people he now employs would have to secure other jobs. The effect of the Government's not spending a cent would, of course, be disastrous economically as well as in many other ways. The Government's expenditure is slightly less than one-fifth of the total goods and services purchased in this country annually.

To those people who have asked the question, why do not we pay the bills, the answer is if we increase the taxes by \$20 billion this year to pay the bills or reduce the expenditures by \$20 billion, the net effect of it would be to create less taxes, more bankruptcies, more failures and more bills.

The theory of the tax cut is to return to each taxpayer an amount roughly equivalent to \$200 which it is hoped he will spend. The conservative estimate of the speed with which that money will be respent is $2\frac{1}{2}$ times per year. The top estimate is four times.

As that money is spent and respent it is anticipated that it will create additional employment, put more people on the tax rolls and thus finally create additional tax revenue.

It has been suggested that a tax cut to stimulate the economy, create employment, and finally balance the budget is a great gamble. In my judgment there is some truth in this. You might set off a round of inflation. But this I doubt. America has tremendous unused capacity and a tremendous selection of goods, and I feel certain that the demand can be supplied for any item you want to buy with your share of the tax cut. Interest rates might rise precipitously, but I doubt that they will rise sufficiently to use up the tax cut.

Many things could happen which would throw off the calculation of balancing the budget.

Our entire economic system depends upon millions of individual decisions of individual people and corporations; as well as upon the decisions of the Government. I agree with the witness before our committee who said, "When you get to thinking about it, it is a miracle it works at all."

On the other hand, the budget has been balanced only 6 of the last 34 years so there is no gamble at all under the present system. We are just going to go deeper into debt. I prefer therefore to take my chances with the tax cut—maybe we will balance the budget by giving each one of us more money to spend.

I would like to emphasize also, that the

amount each taxpayer receives will seem small indeed. In Detroit, I believe it is estimated that it would amount to \$3 per week for a union worker. Someone has said it is only cigarette money; but if that is what it is all spent for—there is going to be a tremendous demand for cigarettes. I asked the people in my district what they would spend it for. I found they would spend it for medicine, home repairs, books, clothes, food, and other small items.

One man wrote in and said:

Please quit talking about a tax cut. You mentioned that last year, and Cavanaugh raised my city taxes. You started talking about it this year and Romney wants to raise my State tax. Don't mention a tax cut again. I can't afford it.

For all of those people who feel that a tax cut would be immediately picked up by State and local governments, I have a pleasant surprise: The estimated effect of the tax cut upon the revenues of your State and local government is shown below, as calculated by the staff of the Joint Economic Committee.

The general opinion of Senator Douglas, the Treasury Department and the Joint Economic Committee is that a reduction in Federal taxes, will result in the increase of State and local tax revenues without changes in existing tax rates or the introduction of new taxes. It is estimated that Federal tax reduction will result in the addition of \$2.9 billion to tax revenues of State and local governments. Of that, an estimated \$1.5 billion would accrue to the States and \$1.4 billion to the local units of the States. The State-by-State reduction will be broken down in the following.

The proposed reduction in Federal income taxes is expected to increase State revenue in the following manner: First, it is expected to add immediately to funds available for consumption and investment and would increase incentives to invest; it would raise output and employment to meet these consumer and investment demands which would create new incomes which in turn would be available to be spent or saved and invested; the consumer and investment spending would increase State and local collections of revenue, and second, economic expansion resulting from the proposed reduction would have a significant effect on the local property tax base as a consequence of new business and residential construction and from increased investment in other types of taxable property; property tax receipts by the local government would be increased.

Substantial relief in increased State revenue will come to those 16 States which allow the deduction of Federal income taxes in computing State income

taxes. These States are Arizona, Colorado, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Minnesota, Missouri, Montana, New Mexico, North Dakota, Oklahoma, Oregon, and Utah.

The following shows the present State and local taxes imposed by these governments and the gain in revenue which the States will receive from the proposed tax reduction.

ALABAMA

First. Corporate organization and qualification fees which range from \$1 per \$1,000 of authorized capital stock and corporate permit from \$10 to \$100. Foreign corporation taxes range from 25 percent and are measured by actual amount of capital employed by the State. Corporate permits for these corporations range from \$5 to \$100. These taxes are payable only at the time of initial organization or increase of capital stock.

Second. Franchise tax, which is payable every year, is \$2.50 for \$1,000 of capital stock for domestic corporations and for foreign corporations, the rate is \$2.50 per \$1,000 of capital stock, measured by the actual amount of capital employed by the State. The franchise tax also imposes an annual franchise permit tax ranging from \$10 to \$100 for domestic corporations and from \$5 to \$100 for foreign corporations.

Third. The State income tax as imposed on individuals which ranges from 1½ to 5 percent, corporations 3 percent, and other financial institutions 6 percent.

Fourth. General property tax is the sum of State and local rates fixed to meet budgets. It is measured by 60 percent of fair market value of real and personal property.

Fifth. License taxes vary according to the business. The tax may be a flat rate or it may be based on population, volume of business, or invested capital.

Sixth. There are also excise taxes on playing cards, carbonic acid gas, alcoholic beverages and gasoline motor fuel and lubricating oils.

Seventh. Severance tax on iron ore, oil and gas and forest products.

Eighth. Motor vehicle and motor carrier taxes, depending on the type of vehicle and purpose for which it is used.

Ninth. A chainstore tax which ranges from \$1 for 1 store to \$112.50 for each store in excess of 20 in the State.

Tenth. Tobacco, stamp, and use tax on cigarettes, cigars, smoking tobacco, chewing tobacco, and snuff.

Eleventh. Document filing tax for conveyances of property and mortgages and for leases of mineral property.

Twelfth. Sales and use tax of 4 percent.

[P. 16999]

Thirteenth. Public utility taxes on electricity, railroads, sleeping car companies, telegraph, telephone, and freight lines.

Fourteenth. Fire and marine insurance tax payable by insurance companies.

Fifteenth. Estate tax patterned after the Federal estate tax but reduced proportionately where property is located outside of the State.

Sixteenth. Poll tax of \$1.50 on all persons from 21 to 45.

Seventeenth. Unemployment compensation tax payable in different rates by both the employers and the employees.

The tax gain under the proposed Federal bill to Alabama is expected to be \$32 million.

ALASKA

First. Corporate organization and qualification fees for both domestic and foreign corporations, ranges from \$20,000 for the first \$100,000 of authorized capital stock to an additional \$10 for each \$1 million or over of authorized capital stock.

Second. An annual corporate tax of \$15 for foreign and domestic corporations and an annual report fee of \$2.50 for all corporations.

Third. General income tax on individuals, 16 percent of total income tax payable to the United States for the same year but based on net income from sources in Alaska. The tax on corporations is 18 percent. In view of the relationship of the tax on that payable to the United States, the reduced rates under the new tax bill will also reduce Alaskan income tax.

Fourth. A mining license tax based on the net income of the taxpayer reported to the Federal Government and royalties from Alaskan mining property.

Fifth. Bank excise tax of 2 percent of net income computed under the Federal Internal Revenue Code.

Sixth. Property tax based on the full and true value at rates fixed locally not to exceed a maximum rate of 3 percent.

Seventh. An excise tax on alcoholic beverages and a license tax to sell such beverages which ranges from \$100 to \$5,000.

Eighth. An excise tax on motor fuel oil.

Ninth. A tax on oil and gas production and an additional tax on oil and gas conservation.

Tenth. A fish gear tax on residents, which is generally increased three times for nonresidents.

Eleventh. Raw fish tax and a cold storage and fish processors tax.

Twelfth. A motor vehicle tax which is based on the type of vehicle used.

Thirteenth. Cigarette tax.

Fourteenth. Gross receipts tax which is generally 2 percent of the net income.

Fifteenth. Insurance companies tax ranging from 3 percent on foreign corporations and 1½ percent for domestic corporations. Domestic corporations have a 5-year tax-free period from the date of organization.

Sixteenth. Inheritance tax ranging from 1 to 17½ percent depending on the class of property involved.

Seventeenth. Estate tax which is designed to absorb the credit allowed by Federal estate tax law. The Federal estate tax law allows an estate credit for taxes paid to a state or a foreign country.

Eighteenth. Poll tax of \$10 per year on every citizen over 19.

Nineteenth. Unemployed compensation paid by employers and employees.

The total gain under the new tax bill to the State of Alaska will be \$4 million.

ARIZONA

First. Corporate organization qualification and annual registration fees of both domestic and foreign corporations. The fees are small and vary according to the type of document filed.

Second. A general income tax ranging from 1 to 4½ percent for individuals, 1 to 5 percent for corporations, and 5 percent for banks and building associations.

Third. General property tax which is the sum of State, county, and municipal rates fixed to meet the budget. This tax includes tax on private car companies' properties and air carriers' properties.

Fourth. A tax on malt extracts and an alcoholic beverage excise and license tax.

Fifth. A parimutuel tax on dog, horse, and harness tracks.

Sixth. A 6-cent-per-gallon gasoline tax and a 6-cent-per-gallon fuel used tax except such fuel as is subject to the motor fuel tax.

Seventh. Motor vehicle registration fees and property carriers' tax.

Eighth. Excise tax on cigars, cigarettes, smoking and chewing tobacco, plug tobacco and snuff.

Ninth. Occupation tax based on gross proceeds from sales and a higher rate on retail sales; a 3-percent use tax on tangible personnel property.

Tenth. Public utilities tax imposed on gross operating revenue of electric, gas, telephone, and water.

Eleventh. Express companies tax based on gross receipts in lieu of property taxes.

Twelfth. Insurance companies tax on both foreign and domestic insurance companies, based principally on gross premiums.

Thirteenth. Estate tax ranging from four-fifths to 16 percent on net estates in excess of \$10 million.

Fourteenth. Street poll tax of \$2 on males 21 to 50.

Fifteenth. Unemployment insurance tax which is paid only by the employers.

The gain under the Federal proposed tax bill would be \$23 million.

ARKANSAS

First. Corporate organization and qualification fee which varies according to the capital stock and which is applicable to both foreign and domestic corporations.

Second. Corporate franchise tax imposed on both domestic and foreign corporations. The rate is determined by the subscribed capital stock. This is an annual tax.

Third. An income tax on individuals and corporations ranging from 1 to 5 percent.

Fourth. General property tax which is the sum of county, municipal, and school rates fixed to meet budgets. The tax is imposed on personal property and on motor carriers and on private car companies.

Fifth. Parimutuel tax on horse and greyhound racing.

Sixth. An excise tax on all alcoholic beverages.

Seventh. A gasoline tax of 6½ percent per gallon.

Eighth. A production tax on minerals and a conservation tax on oil and gas.

Ninth. A motor vehicle registration and motor carrier tax with fees depending on type of vehicle involved.

Tenth. Cigarette tax.

Eleventh. A 3 percent gross receipts and use tax.

Twelfth. A public utilities tax levied on gross earnings of rail carriers.

Thirteenth. An insurance companies tax based on premiums.

Fourteenth. Estate tax equal to the maximum Federal estate tax credit apportioned among the States where the property is located.

Fifteenth. A poll tax of \$1 on all inhabitants over 21 years of age.

Sixteenth. Unemployment insurance tax imposed only on the employer.

The gain under the proposed Federal tax bill to Arkansas will be \$19 million.

CALIFORNIA

First. Corporate organization and qualification fee based on the capital stock of domestic and foreign corporations.

Second. Bank and corporate franchise tax based on annual net income derived from business transacted in California.

Third. Corporate income tax of 5.5 percent on net income on corporations which are not covered under the tax described in two.

Fourth. Personal income tax ranging from 1 to 7 percent.

Fifth. General property tax at rates fixed locally to meet the budget.

Sixth. Parimutuel tax based on parimutuel pools.

Seventh. A license tax for the handling of alcoholic beverages and an excise tax on alcoholic beverages.

Eighth. Gasoline tax on motor fuel distributed and a fuel tax for fuel used to propel motor vehicles except such fuel as is subject to the gasoline tax.

Ninth. A severance tax on oil and natural gas produced.

Tenth. A motor vehicle registration fee and motor carrier tax, which tax varies according to the type and weight of vehicle.

Eleventh. An excise cigarette tax.

Twelfth. A 3-percent sales and use tax.

Thirteenth. A public utilities tax imposed on toll bridges and ferries, money transporters, streetcars, and wharves.

Fourteenth. An insurance companies tax imposed on general insurers and ocean marine insurers, based on premiums.

Fifteenth. An inheritance and estate tax which varies from 2 to 24 percent.

Sixteenth. Gift tax ranging from 2 to 16 percent of the fair market value of the gift at the time of the transfer and depending upon the relationship between the donee and donor.

Seventeenth. Unemployment and disability compensation tax paid both by the employers and employees.

[P. 17000]

The expected revenue increase to California under the proposed tax bill is \$404 million.

COLORADO

First. This State has the usual corporate organization and qualification fee tax, franchise tax, general property tax and mine tax, alcoholic beverages excise tax, gasoline tax, oil and gas production tax, oil and gas conservation tax, motor vehicle and aircraft tax, insurance companies tax and inheritance estate and gift tax which are similar to those mentioned herein above.

Second. General income tax on individuals ranging from 3 to 8 percent and on corporations, 5 percent of Colorado income only.

Third. Parimutuel tax of 5 percent of gross receipts on wagering.

Fourth. An oleomargarine excise tax and license tax.

Fifth. Coal tonnage based on coal mine

and a license fee of \$10 to \$50 depending on the tonnage of coal produced annually.

Sixth. Chain store tax graduated from \$2 for 1 store to \$300 for each store in excess of 24 operated within the State.

Seventh. Realty recording fee of 1 cent per \$100 of total consideration paid for real estate.

Eighth. A sales and use tax of 2 percent of gross receipts.

Ninth. Utilities tax not to exceed one-fifth of 1 percent of gross intrastate operating revenues.

Tenth. Unemployment insurance tax paid by the employers only.

The expected gain in revenue to Colorado under the proposed Federal tax bill is \$35 million.

CONNECTICUT

First. This State has the usual corporate organization and qualification tax, property tax, excise alcoholic beverage tax, excise gasoline and fuel tax, motor vehicle and carrier and aircraft registration tax, excise cigarette tax, insurance companies tax and estate and inheritance tax which is similar to those described hereinabove.

Second. A sales and use tax of 3½ percent.

Third. Corporate business tax of 5 percent of net income and 2 percent on saving institutions income.

Fourth. Unincorporated business tax based on the businesses' gross income.

Fifth. Public utilities tax of 6 percent on intrastate gross earnings of cable, telegraph car, steam or electric railroads, express railroads, electric, gas, power and water companies.

Sixth. Unemployment compensation tax paid by the employers only.

The expected revenue which would accrue to this State under the proposed Federal tax bill is \$45 million.

DELAWARE

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, excise alcoholic beverage tax, excise gasoline tax, motor vehicle registration tax, excise cigarette tax, public utilities tax, insurance companies tax and parimutuel tax.

Second. Corporate income tax of 5 percent.

Third. An individual income tax ranging from 1½ to 11 percent.

Fourth. Banks, trust and loan companies tax of one-fifth of 1 percent of capital stock.

Fifth. Branch store license tax based on business done by the branch store which has its principal place of business outside the State.

Sixth. Merchants and manufacturers tax based on gross receipts.

Seventh. Poll tax of 25 cents to \$1.25 on all inhabitants over 21 years of age, the rates to be fixed by county levy courts.

This State is expected to gain \$7 million under the proposed Federal tax bill.

DISTRICT OF COLUMBIA

First. The District has the usual corporate organization and qualification tax, corporate annual report and license tax, general property tax, excise alcoholic beverage tax, excise gasoline tax, motor vehicle and motor carrier registration fees, excise cigarette tax, real estate recording fees, public utilities tax which includes banks and other financial institutions, insurance companies tax and inheritance tax.

Second. Individual income tax ranging from 2½ to 5 percent.

Third. Corporations and unincorporated business tax of 5 percent.

Fourth. Sales and use tax of 4 percent.

Fifth. Unemployment compensation tax payable only by employers.

No estimate is available as to what the District will gain under the proposed Federal tax bill probably because the District revenues are controlled by the U.S. Congress.

FLORIDA

First. This State has the usual corporate organization and qualification tax which includes limited partnerships, corporate franchise tax, general property, and intangible personal property tax, parimutuel tax, excise alcoholic beverage tax, excise gasoline and special fuel tax, oil and gas conservation and production tax, motor vehicle and carrier and aircraft registration fees, excise cigarette tax, documentary stamp tax—comparable to the recording fees in other areas—public utilities tax, insurance companies tax, and estate tax.

Second. A license tax which varies according to the business involved.

Third. Three-percent sales, use, rental, and admissions tax.

Fourth. Unemployment compensation tax payable by the employer only.

This State is expected to gain \$79 million under the proposed Federal tax bill.

GEORGIA

First. This State has the usual corporate organization and qualification tax, annual corporate franchise tax, general property tax which includes intangibles, oleomargarine tax, excise alcoholic beverage tax, and alcoholic license tax, excise gasoline tax which includes kerosene, motor vehicle and motor carrier registration fee, excise cigar and cigarette tax, insurance companies tax, estate tax, and unemployment insurance tax paid by the employer only.

Second. Individual income tax ranging from 1 to 5 percent.

Third. Corporate income tax of 4 percent.

Fourth. A 3-percent sales and use tax.

This State is expected to gain \$42 million under the proposed Federal tax bill.

HAWAII

First. This State has the usual corporate organization and qualification tax, annual corporate report and license tax, general property tax, excise alcoholic beverage tax, fuel tax the rate which depends on the county, motor vehicle carrier safety fee, excise tobacco tax, public utilities tax, insurance companies tax, inheritance tax, and unemployment insurance tax paid by the employer only.

Second. Individual corporate tax ranging from 3 to 9 percent.

Third. Corporate income tax ranging from 5 to 5.5 percent.

Fourth. A franchise tax on banks and other financial institutions.

Fifth. A sales and use tax ranging from one-half of 1 percent to 3.5 percent.

Hawaii is expected to gain \$10 million under the proposed Federal tax bill.

IDAHO

First. This State has the usual corporate organization and qualification fee, corporate franchise tax, general property tax, oleomargarine tax, excise alcoholic beverage tax and license tax, excise gasoline and special fuel tax, motor vehicle and motor carrier and aircraft registration fees, excise cigarette tax, public utilities tax, insurance companies tax, inheritance tax, and unemployment insurance tax payable by employers only.

Second. Income tax on individuals ranging from 3.4 up to 10.5 percent.

Third. Bank and corporate tax of 10.5 percent.

Fourth. Forest products tax of 12½ percent of value of products severed.

Fifth. A severance tax on minerals and coal.

Idaho is expected to gain \$10 million under the proposed Federal tax bill.

ILLINOIS

First. This State has the usual corporate organization and qualification tax, corporate franchise tax, general property and capital stock tax, parimutuel tax, excise alcoholic beverage tax, excise gasoline tax, motor vehicle registration fees, excise cigarette tax, public utilities tax, insurance companies tax, inheritance tax and unemployment insurance tax payable by the employers only.

Second. Hotel occupancy tax of 3 percent.

Third. Sales and use tax of 3½ percent which includes the rendering of services.

Illinois is expected to gain \$161 million under the proposed Federal tax bill.

INDIANA

First. This State has the usual corporate organization and qualification tax, general property tax on tangibles and intangibles, public utilities tax, excise alcoholic beverage and license tax, [P. 17001]

excise gasoline and fuel use tax, motor vehicle and motor carrier fees, excise cigarette tax, insurance companies tax, inheritance tax, poll tax of \$1 for each male between the ages of 21 and 50, and unemployment insurance tax payable by the employers only.

Second. Income tax on individuals of 2 percent.

Third. Income tax on corporations of 2 percent.

Fourth. Vessels tax of 3 cents per net ton.

Fifth. Petroleum production tax of 1 percent.

Sixth. Sales and use tax of 2 percent.

Seventh. Gross income tax based on wholesale sales.

The State of Indiana is expected to gain \$64 million from the proposed Federal tax bill.

IOWA

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, public utilities tax, excise alcoholic beverage tax and license tax, excise gasoline and special fuel tax, motor vehicle and aircraft registration fees, chain store tax, excise cigarette and tobacco tax, insurance companies tax, inheritance tax and unemployment insurance tax which the employer pays solely.

Second. Individual income tax ranging from 0.75 to 3.75 percent.

Third. Corporate income tax of 3 percent.

Fourth. Moneys and credit tax and corporate stock tax levied on mortgages, moneys, shares, and so forth.

Fifth. Financial institutions tax based on capital.

Sixth. Grain handlers tax based on bushels of grain handled.

Seventh. Sales and use tax of 2 percent.

The State of Iowa is expected to gain \$47 million under the proposed Federal tax bill.

KANSAS

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, grain handling tax, a tax and license fee on malt extracts and alcoholic beverages,

motor vehicle fuel and special fuel tax, oil and gas production tax, motor vehicle and motor carrier tax, cigarette tax, registration tax for mortgages, taxes on express and private car companies, insurance companies tax and unemployment insurance tax payable by the employer only.

Second. Income tax on individuals ranging from 1½ to 5½ percent.

Third. Corporate income tax of 3½ percent.

Fourth. Sales and use tax of 2½ percent.

Kansas is expected to gain \$37 million under the proposed Federal tax bill.

KENTUCKY

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, parimutuel tax, excise alcoholic beverages tax and licenses tax, tax on gasoline and fuel, tax by both the State and county on oil production, motor vehicles and motor carriers and aircraft carriers tax, cigarette tax, insurance companies tax, inheritance tax, poll tax of \$1.50 on males 21 to 65 levied by the county, levied by the city \$1.50, and school districts \$2, and unemployment insurance tax payable by employers only.

Second. Individual income tax ranging from 2 to 5 percent and a surtax of 10 to 30 percent.

Third. Corporate income tax ranging from 5 to 7 percent.

Fourth. Sales and use tax of 3 percent.

Fifth. Jefferson and Louisville Counties levy 1½-percent taxes on salaries but whether these taxes are valid is still in question.

Kentucky is expected to gain \$29 million from the proposed Federal tax bill.

LOUISIANA

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, parimutuel tax, excise alcoholic beverage tax and license tax, excise gasoline and lubricating oils tax, motor vehicle and motor carrier fees, chainstore tax, sales tax on tobacco, public utilities tax, insurance companies tax, inheritance and gift taxes, street tax, and unemployment insurance tax payable by the employers only.

Second. Income tax on individuals ranging from 2 to 6 percent.

Third. Corporate income tax of 4 percent.

Fourth. License tax on business.

Fifth. Tax on soft drinks and sirups.

Sixth. Severance tax on coal and minerals.

Seventh. Sales and use tax of 2 percent.

Eighth. The State does not impose a poll tax but villages and towns may impose a street tax not to exceed \$4 on males of 18 to 55.

Louisiana is expected to gain \$43 million under the proposed Federal tax bill.

MAINE

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, parimutuel tax, excise alcoholic beverage and license tax, excise gasoline tax, motor vehicle registration tax, excise cigarette tax, tax on telegraph and telephone companies, tax on parlor car companies, inheritance tax, \$3 poll tax on all males between 21 and 70 who are inhabitants of the State, and unemployment compensation tax which is payable only by the employer.

Second. Forest lands tax on all forestry district property.

Third. An excise tax on motor vehicles, aircraft, and house trailers.

Fourth. Sales and use tax of 3 percent.

Fifth. A gross receipts tax on railroad and express companies.

Maine is expected to gain \$13 million from the proposed Federal tax bill.

MARYLAND

First. This State has the usual corporate organization and qualification tax, franchise tax, general property tax, parimutuel tax, excise alcoholic beverage and license tax, excise gasoline tax, motor vehicle registration fee, chainstore tax, excise cigarette tax, documentary recording stamp tax, public utilities tax, insurance companies tax, inheritance tax, and unemployment compensation tax to which only the employer contributes.

Second. A tax on savings banks of 10 cents per \$100 deposited.

Third. Individual income tax which ranges from 3 to 5 percent on investment income and 3 percent on other income.

Fourth. Corporate income tax of 5 percent.

Fifth. Admissions tax of one-half of 1 percent on gross receipts from admissions to places of amusement.

Maryland is expected to gain \$48 million from the proposed Federal tax bill.

MASSACHUSETTS

First. This State has the usual corporate organization and qualification tax, annual report tax, general property tax, parimutuel tax, public utilities tax, excise alcoholic tax and license tax, excise gasoline tax, excise cigarette tax, motor vehicle registration tax, excise tax on motor vehicles, real estate transfer tax, insurance companies tax, inheritance tax and employment security tax payable only by the employers.

Second. Individual income tax which ranges from 1½ to 6 percent; there is also a 23 percent surtax on personal incomes.

Third. Corporate income taxes vary depending on the type of business involved. The rates are one-half of 1 percent to 3.69 percent; this tax also includes a surtax of 23 percent on income.

Fourth. Forest land tax which depends on the classification of the forest lands and the stumpage value of products cut in any 1 year.

Fifth. Excise tax of 5 percent on meals of \$1 or more.

Sixth. Franchise tax on bridges, canals, safe deposits, cemeteries, crematory companies.

Massachusetts is expected to gain \$95 million under the proposed Federal tax bill.

MICHIGAN

First. This State has the usual corporate organization and qualification tax, annual license on business corporations, general property tax on tangibles and intangibles, parimutuel tax, public service corporations tax, excise alcoholic beverages and licenses tax, excise gasoline tax, excise cigarette tax, oil production tax, gas and oil severance tax, motor vehicles, motor carriers and aircraft fees, chainstore tax, insurance companies tax, inheritance tax and unemployment insurance tax payable by the employer only.

Second. Steamship tonnage tax depending on whether the steamships are commercial or noncommercial.

Third. Forest lands tax depending on stumpage.

Fourth. Grain tax based on grain held by dealers, processors, or warehousemen.

Fifth. Sales and use tax of 4 percent.

Sixth. Business receipts tax based on adjusted receipts.

[P. 17002]

Seventh. The State of Michigan does not have a personal income tax but the city of Detroit has a 1-percent tax.

Michigan is expected to gain \$158 million under the proposed Federal tax bill. This is one of the larger gains with California, Illinois, and New York leading.

MINNESOTA

First. This State has the usual corporate organization and qualification tax, corporate annual report fees, general property tax which includes electric transmission lines, airline flight property, auxiliary forests, vessel tonnage, grain, coal, and tree growth, oleomargarine tax, excise alcoholic beverage and licenses taxes, excise gasoline taxes, occupation and royalty taxes on the iron

ore and timber yield, motor vehicle and aircraft taxes depending on weight and type, excise cigarette and tobacco tax, mortgage registry tax, real estate transfer tax, inheritance and gift tax, public utilities companies tax, insurance companies tax, and unemployment insurance tax payable by the employer only.

Second. Individual income tax ranging from 1 to 10 percent with surtaxes of 15 percent.

Third. Corporation income tax of 9.3 percent.

Minnesota is expected to gain \$62 million under the proposed Federal tax bill.

MISSISSIPPI

First. This State has the usual corporate organization and qualification taxes, corporate franchise taxes, general property taxes, excise alcoholic beverage and licenses tax, excise gasoline and fuel oil taxes, gas and oil severance taxes, tax on timber and timber products, motor vehicle and motor carrier registration fees, chainstore taxes, excise tobacco tax, public utilities tax, insurance companies taxes, estate tax, and unemployment insurance tax for which the employer is the sole contributor.

Second. Income tax on individuals and corporations ranging from 3 to 6 percent.

Third. A tax on banks and banking institutions based on their net worth for business license tax depending on the classification of the business.

Fourth. Severance tax of 3 percent on salt.

Fifth. Admissions tax on admissions to places of amusement.

Sixth. Mineral documentary tax relating to transfers by conveyances or leases of mineral properties.

Seventh. Sales and use tax ranging from one-eighth of 1 to 3 percent of gross income or purchase price.

Eighth. Poll tax of \$2 per person between 21 and 60 and an additional \$1 may be levied for school purposes.

Mississippi is expected to gain \$19 million under the proposed Federal tax bill.

MISSOURI

First. This State has the usual corporate organization and qualification taxes, corporate franchise taxes, annual registration fees, general property taxes on tangible and intangible properties, excise alcoholic beverage taxes and licenses, excise gasoline and fuel use tax, motor vehicle and motor carrier registration fees, excise cigarette taxes, insurance companies taxes, inheritance taxes, and unemployment compensation tax with the employer the sole contributor.

Second. Individual income tax ranging from 1 to 4 percent.

Third. Corporation and associations income taxes of 2 percent.

Fourth. Income taxes for banks, trust companies, and credit institutions of 7 percent.

Fifth. Merchants and manufacturers license taxes.

Sixth. Forest cropland tax depending on the value of land and the stumpage value of the timber cut.

Seventh. Gross receipts income on express companies; 1-percent tax on freight companies.

Eighth. Poll tax imposed on able-bodied males from 21 to 50 or 60 varying from \$1.50 to \$4 depending on the classification of town, city, or village.

Ninth. St. Louis imposes a 1-percent personal income tax.

Missouri is expected to gain \$57 million under the proposed Federal tax bill.

MONTANA

First. This State has the usual corporate organization and qualification taxes, annual report fee, general property taxes which include public utilities, property tax, partimutuel tax, excise tax and license tax on alcoholic beverages, excise tax on gasoline and special fuel, oil production tax, motor vehicle and motor carrier fees, chainstore tax, excise cigarette tax, public utilities tax based on gross income, insurance companies tax, inheritance tax, and unemployment compensation tax to which the employee does not contribute.

Second. Corporation income tax of 4½ percent.

Third. Personal income tax ranging from 1 to 7 percent.

Fourth. Taxes on coal mine operators and dealers, cement and carbon black dealers, mineral matter dealers, depending on the amount any of such materials is produced.

Fifth. The counties of Montana have permission to levy a poll tax of \$2 per person from 21 to 60; cities and towns could levy a poll tax not to exceed \$3 on able-bodied males from 21 to 45.

Montana is expected to gain \$13 million under the proposed Federal tax bill.

NEBRASKA

First. This State has the usual corporate organization and qualification taxes, corporate franchise taxes, general property taxes, which include tangibles and intangibles, and flight equipment and air carriers, parimutuel taxes, excise alcoholic beverage and license tax, excise gasoline and special fuels tax, oil and gas severance tax, oil and gas conservation tax, motor vehicles and motor carriers registration fees, excise cigarette tax, insurance companies tax, inheritance tax and unemployment insurance tax paid solely by the employer.

Second. Car (railroads) companies tax paid on mileage.

Third. Pension and profit-sharing trusts are taxed at 2 percent.

Fourth. Installment papers and installment loan companies are taxed in gross income.

Fifth. A mandatory head tax for all inhabitants from 21 to 59 of \$3.50 each; a poll tax which is mandatory in cities, and permissive in towns of \$2 or \$3 for males from 21 to 49.

Nebraska is expected to gain \$18 million under the proposed Federal tax bill.

NEVADA

First. This State has the usual corporate organization and qualification taxes, annual corporate report fees, general property taxes, mines tax which is based on property, parimutuel tax, excise alcoholic beverage tax and license fees, excise gasoline and used fuels and inspection fees, oil and gas conservation tax, motor vehicle and motor carrier registration fees, excise cigarette tax, public utilities tax, insurance companies and unemployment insurance tax with the employer the sole contributor.

Second. A poll tax imposed by the county of \$3 per capita on male residents between 21 and 50.

Nevada is expected to gain \$7 million under the proposed Federal tax bill.

NEW HAMPSHIRE

First. This State has the usual corporate organization and qualification taxes, domestic and foreign corporate annual report fees, general property tax, public utilities tax, excise alcoholic beverage tax and licenses, excise gasoline tax, motor vehicle, motor carriers, and aircraft registration fees, excise tobacco tax, utilities tax on gasoline and electric companies which are not covered under public utilities tax, insurance companies tax, inheritance tax, unemployment insurance tax which is paid solely by the employer.

Second. Intangible income tax of 4½ percent on an interest from bonds, notes, money, with the exception of savings and savings deposits.

Third. Bank tax of 1 percent based generally on capital stock.

Fourth. Poll tax of \$2 per person who is between 21 and 70 years.

New Hampshire is expected to gain \$8 million under the proposed Federal tax bill.

NEW JERSEY

First. This State has the usual corporate organization and qualification tax, corporate franchise tax, corporate annual fee, general property taxes, parimutual taxes, excise alcoholic beverage taxes, registration fees for motor vehicles

and autobuses, excise cigarette tax, public utilities tax, insurance companies tax, inheritance tax, and unemployment tax and disability tax to which the employer and employee both contribute.

Second. Financial excise tax based on net worth of financial businesses competing with national banks.

Third. Commuter income tax based on income derived from sources within New Jersey and its rates range from 2 to 10 percent.

Fourth. Banks stock tax based on the common capital stock of banks and bank associations.

Fifth. Railroad property tax measured by the value of property used for railroad purposes.

Sixth. Railroad franchise tax based on net operating income allocated to New Jersey.

[P. 17003]

New Jersey is expected to gain \$116 million under the proposed Federal tax bill.

NEW MEXICO

First. This State has the usual corporate organization and qualification taxes, corporate franchise and report fees, general property taxes which includes stocks of banks and mining property, parimutuel taxes, excise alcoholic beverage tax and licenses, excise tax on gasoline and special fuels, oil and gas production taxes, motor vehicles and motor carriers registration fees, excise cigarette tax.

Second. Public utilities tax on electric, gas, water steam, pipeline and carline companies.

Third. Insurance companies tax.

Fourth. Inheritance tax.

Fifth. Unemployment compensation paid only by the employer.

Sixth. About 30 cities in New Mexico have levied a 1-percent sales tax.

New Mexico is expected to gain \$13 million under the proposed Federal tax bill.

NEW YORK

First. This State has the usual corporate organization and qualification tax, franchise tax based principally on income, general property tax, parimutuel tax, excise alcoholic beverage tax and licenses, excise motor fuel tax, motor vehicle registration tax, excise cigarette tax, public utilities tax, insurance companies tax, estate tax, and unemployment insurance tax payable both by employers and employees.

Second. Personal income tax ranging from 2 to 10 percent.

Third. Unincorporated business income tax of 4 percent.

Fourth. Stock transfer tax of 2 cents

per share on transfers and mortgage tax of 50 cents per each \$100 of the debt.

Fifth. New York State does not have a sales tax but numerous cities in New York such as New York, Niagara Falls, Batavia, Poughkeepsie, Plattsburgh, Syracuse, and Watertown have sales and use taxes; the tax rates vary from 1 to 2 percent. Also some counties in New York State have 1 or 2 percent sales and use taxes.

New York is expected to gain \$410 million under the proposed Federal tax bill.

NORTH CAROLINA

First. This State has the usual corporate organization and qualification tax, corporate franchise tax based on capital stock, and surplus, general property tax on tangibles and intangibles, oleomargarine tax, excise alcoholic beverages tax and license fees, excise gasoline tax, motor vehicle, and motor carrier registration fees, chainstore tax, public utilities tax, insurance companies tax, inheritance, and gift taxes and unemployment insurance tax to which only the employer contributes.

Second. Personal tax ranging from 3 to 7 percent.

Third. Corporate income tax of 6 percent.

Fourth. Sales and use tax of 3 percent.

Fifth. A mandatory poll tax imposed by the counties of \$2 on males 21 to 50 and a permissive poll tax of \$1 which can be imposed by cities and towns on persons over 21.

North Carolina is expected to gain \$52 million under the proposed Federal tax bill.

NORTH DAKOTA

First. This State has the usual corporate organization and qualification tax and a nominal corporate annual report fee, general property tax which includes a tax on grain, an oleomargarine tax with additional rates depending on the butterfat content and where it is colored yellow, excise alcoholic beverages tax and license fees, excise gasoline and fuel use tax, oil and gas gross production tax, motor vehicles, motor carriers and aircraft registration fees, excise tax on cigarettes and snuff, a public utilities tax based only on rural electric cooperatives or telephone companies, insurance companies tax, estate tax and unemployment insurance tax to which only the employer contributes.

Second. Personal income tax ranging from 1 to 11 percent.

Third. Corporate income tax ranging from 3 to 6 percent with banks and trust companies and other financial associations tax at 4 percent.

Fourth. Sales and use tax of 2¼ percent.

North Dakota is expected to gain \$9 million under the proposed Federal tax bill.

OHIO

First. This State has the usual corporate organization and qualification tax, corporate franchise tax based on capital stock and surplus, general property tax, grain handling tax, parimutuel tax, excise alcoholic beverage and license tax, excise gasoline tax, motor vehicle, motor carriers and aircraft registration fees, excise cigarette and tobacco tax, public utilities tax imposed on railroads, messenger companies, and pipelines, insurance companies tax, inheritance tax and unemployment insurance tax to which the employer contributes only.

Second. Ohio does not have an income tax but a 1-percent income tax is imposed by Akron, Canton, Cincinnati, Columbus, Dayton, Springfield, Toledo, and Youngstown.

Ohio is expected to gain \$137 million under the proposed Federal tax bill.

OKLAHOMA

First. This State has the usual corporate organization and qualification tax, corporate franchise tax based on capital, general property tax which includes tangibles and intangibles, excise alcoholic beverage tax and license fees, excise gasoline and motor fuel tax, motor vehicle and motor carriers registration fees, motor vehicle excise tax on motor carriers, excise tax on cigarettes and tobacco products, a public utilities tax on rural electric cooperatives and freight car companies, insurance companies tax on foreign companies only, estate and gift tax and unemployment insurance tax to which only the employer contributes.

Second. Personal income tax ranging from 1 to 6 percent.

Third. Corporate and national bank tax of 4 percent.

Fourth. Gross production tax on minerals, oil and gas.

Fifth. Sales and use tax of 2 percent.

Oklahoma is expected to gain \$29 million under the proposed Federal tax bill.

OREGON

First. This State has the usual corporate organization tax, corporate franchise tax based on capital stock, general property tax which includes tax on forest lands and wheat, parimutuel tax, excise alcoholic beverages tax and license fees, excise gasoline and fuel use tax, timber tax, motor vehicle, motor carrier and aircraft registration fees, public utilities tax, insurance companies tax which is imposed only on foreign or alien insurance companies, inheritance

and gift tax and unemployment insurance tax to which only the employer is the sole contributor.

Second. Personal income tax ranging from 3 to 9.5 percent.

Third. Corporate income tax of 6 and 9 percent on financial institutions.

Oregon is expected to gain \$34 million under the proposed Federal tax bill.

PENNSYLVANIA

First. This State has a domestic corporations excise tax based on capital stock, foreign corporations excise tax based on capital stock, foreign corporate franchise tax, general property tax which includes tangibles, intangibles, corporate loans and capital stock, hotel occupancy tax of 4 percent, alcoholic beverages license fee, excise tax on alcoholic beverages, gasoline and cigarettes, motor vehicle and motor carrier registration fees, realty transfer tax, public utilities tax, insurance tax imposed on the businesses, inheritance tax and unemployment insurance tax payable by the employer only.

Second. Corporate income tax of 6 percent.

Third. Sales and use tax of 5 percent.

Fourth. A poll tax of 50 cents on Federal employees residing in counties of certain classes.

Fifth. Various cities such as Philadelphia and Pittsburgh impose a mercantile license tax based on gross volume of business.

Pennsylvania is expected to gain \$136 million under the proposed Federal tax bill.

RHODE ISLAND

First. This State has the usual corporate organization and qualification tax, corporation franchise and annual report tax, general property tax, parimutuel tax, alcoholic beverages, license fee and excise taxes on alcoholic beverages, gasoline and cigarettes, public utilities tax, insurance companies tax, inheritance and gift tax, and unemployment insurance tax paid by both the employer and the employee.

Second. Business tax on all businesses.

Third. Sales and use tax of 3 percent.

Rhode Island is expected to gain \$13 million under the proposed Federal tax bill.

[P. 17004]

SOUTH CAROLINA

First. This State has the usual corporate and qualification tax, corporate franchise tax, annual report fee for foreign corporations, general property tax, soft drinks tax, oleomargarine tax, alcoholic beverages license fee, excise tax on alcoholic beverages, gasoline tax, admissions to places of amusement, cig-

arettes, other tobacco, playing cards, cartridges and shells, public utilities tax, motor vehicle and motor carrier registration fees, chainstore tax, insurance companies tax, inheritance tax, and unemployment compensation tax paid by the employer only.

Second. Individual income tax ranging from 2 to 7 percent.

Third. Corporate income tax of 5 percent.

Fourth. Documentary tax on bonds and stocks issued, stock transfers, conveyances, mortgage and notes, and powers of attorney.

Fifth. Sales and use tax of 3 percent.

South Carolina is expected to gain \$22 million under the proposed Federal tax bill.

SOUTH DAKOTA

First. This State has the usual corporate organization and qualification tax, annual corporate report fee, general property tax which includes tangibles and intangibles, butter substitute tax, parimutuel tax, alcoholic beverages license fee and gross receipts tax, motor vehicle, motor carrier and aircraft registration fee, excise tax on gasoline, alcoholic beverages and cigarettes, severance tax on minerals, oil and gas, insurance companies tax, inheritance tax and unemployment insurance tax payable by the employer only.

Second. Bank and financial corporate excise tax of 4½ percent of net income.

Third. Sales and use tax of 2 percent.

Fourth. A 6-percent gross earnings tax on express railroad companies and private car companies.

South Dakota is expected to gain \$11 million under the proposed Federal tax bill.

TENNESSEE

First. This State has a corporate charter and privilege tax, annual corporate franchise report and gross receipts tax, general property tax, soft drinks tax, oleomargarine tax, alcoholic beverage license fee, excise taxes on alcoholic beverages, gasoline, and used fuel, cigarettes and tobacco, theaters, motion pictures and vaudeville, public utilities tax, motor vehicles tax based on weight and purpose for which the vehicle is used, chainstore tax, insurance companies tax, inheritance and gift taxes and unemployment compensation tax payable solely by the employer.

Second. Corporate business income tax of 4 percent.

Third. Corporate tax on income from stocks and dividends.

Fourth. Privilege tax for engaging in specified occupations, businesses, and vocations.

Fifth. Mortgage tax and real estate transfer tax.

Sixth. Sales and use tax of 3 percent.

Seventh. A poll tax of \$1 for every male inhabitant between the ages of 21 and 50 and exempting veterans.

Tennessee is expected to gain \$35 million under the proposed Federal tax bill.

TEXAS

First. This State has the usual corporate organization and qualification taxes, corporate filing fee, corporate franchise taxes based somewhat on profits, general property taxes, 3 percent hotel occupancy tax, alcoholic beverage license fee, excise taxes on alcoholic beverages, gasoline, special fuels, admissions and cigarette and tobacco, severance tax on oil, natural gas, sulfur and cement, motor vehicles sales and use tax, motor vehicles-registration fees, chainstore tax, stock transfer tax, public utility tax, insurance compensation tax, inheritance tax, and unemployment insurance tax to which only the employer contributes.

Second. Sales and use tax of 2 percent.

Third. Poll tax of \$1.50 imposed on persons 21 to 60, county poll tax of 25 cents on persons 21 to 60, county commutation tax of \$3 on males 21 to 60 and a city tax of \$1 on persons 21 to 60.

Texas is expected to gain \$126 million under the proposed Federal tax bill.

UTAH

This State has the usual corporate organization and qualification taxes, corporate franchise taxes based on income, general property tax which includes cattle, oleomargarine tax, alcoholic beverage license fee, excise tax on gasoline and fuel and cigarettes, production tax on oil, gas and minerals, motor vehicle registration fee, public utilities tax, insurance companies tax, estate tax and unemployment insurance tax to which the employer contributes solely.

First. Personal income tax ranging from 1 to 5 percent.

Second. Two and one-half percent sales and use tax.

Utah is expected to gain \$16 million under the proposed Federal tax bill.

VERMONT

First. This State has the usual corporate organization and qualification taxes, corporate franchise taxes based on income general property tax, meals and room tax of 3 percent, parimutuel tax, alcoholic beverage license fee, excise taxes on gasoline, tobacco and cigarettes, motor vehicle registration fee, motor vehicle sales and use tax, public utilities tax, insurance companies tax, inheritance tax and unemployment insurance tax to which the employer contributes solely.

Second. Personal income tax ranging from 2 to 7 percent.

Third. Poll tax on all persons between 21 and 70.

Fourth. Old-age assistance tax of \$5.

Vermont is expected to gain \$6 million under the proposed Federal tax bill.

VIRGINIA

First. This State has the usual corporate organization and qualifications taxes, domestic corporate franchise tax based on capital stock, corporate annual registration fee for both domestic and foreign, general property tax which includes tangibles and intangibles, utilities tax on railroads and private car companies, license for alcoholic beverage tax, excise tax on gasoline, cigarettes and cigars, motor vehicles registration fees, recording tax, insurance companies tax, inheritance tax and gift tax, poll tax of \$1.50 on all persons over 21 and unemployment compensation tax to which only the employer contributes.

Second. Personal income tax ranging from 2 to 5 percent.

Third. Corporate income tax of 5 percent.

Fourth. Business license tax depending on the business.

Fifth. Timber tax on the quantity of timber severed.

Sixth. Wills and administration tax.

Seventh. Bristol, Va., has a sales and use tax of 2 percent.

Virginia is expected to gain \$43 million under the proposed Federal tax bill.

WASHINGTON

First. This State has the usual corporate organization and qualification taxes, corporate franchise taxes, general property taxes, forest lands in crops tax depending on yield, parimutuel tax, alcoholic beverage license tax, excise tax on alcoholic beverage, gasoline and cigarette and tobacco, conveyance tax, motor vehicles and aircraft tax and registration fee, public utilities tax, insurance companies premiums tax, inheritance and gift tax, unemployment compensation tax to which the employer only contributes.

Second. Sales and use tax of 4 percent.

Third. Business and occupancy tax based on gross proceeds.

Washington is expected to gain \$48 million under the proposed Federal tax bill.

WEST VIRGINIA

First. This State has the usual corporate organization and qualification taxes, corporate franchise tax, corporate annual fee, general property tax, soft drinks tax, parimutuel taxes, alcoholic beverage license fee, excise taxes on alcoholic beverage, gasoline and cigarettes, chainstore taxes, recording tax, motor vehicles, registration tax, insurance companies tax, inheritance tax, poll tax of \$2

for every male over 21, unemployment insurance tax to which only the employer contributes.

Second. 2 percent sales and use tax.

Third. Personal income tax ranging from 1.2 to 5.5 percent.

Fourth. Occupation tax on business.

West Virginia is expected to gain \$17 million under the proposed Federal tax bill.

WISCONSIN

First. This State has the usual corporate organization and qualification taxes, corporate reporting fee, motor vehicle fee, chainstore tax, recording fees, general property taxes, oleomargarine tax, excise taxes on alcoholic beverage, gasoline and cigarettes, motor vehicle and aircraft registration fees, public utilities tax, insurance companies tax, inheritance tax and gift taxes, unemployment compensation tax to which the employer contributes only.

Second. General income tax on individuals ranging from 1 to $3\frac{1}{2}$ percent and on corporations ranging from 2 to 7 percent.

Third. Timber tax based on stumpage.

Fourth. Sales and use tax of 3 percent.

[P. 17005]

Wisconsin is expected to gain \$68 million under the proposed Federal tax bill.

WYOMING

First. This State has the usual corporate organization and qualification taxes, corporate organization and qualification fees, corporate franchise tax based on property, general property tax, alcoholic license beverage fee, excise taxes on alcoholic beverages, gasoline and cigarettes, motor vehicle registration fee and oil and gas production tax, unemployment insurance tax payable only by the employer, insurance companies tax and inheritance tax.

Second. Sales and use tax of 2 percent.

Third. Express companies tax of 5 percent on money received as express charges.

Fourth. A \$2 poll tax mandatory for persons 21 to 50 and a permissive commutation tax of \$2 for all able-bodied males from 21 to 50.

Wyoming is expected to gain \$5 million under the proposed Federal tax bill.

Finally, I would like to say a few words about the motion to recommit. I am sure every Congressman has sympathy with the idea of cutting out governmental waste and of not spending too much. When the motion to recommit was first considered in committee as an amendment, I believe it was suggested that the second stage of the tax cut be tied to the total budget. Obviously, there would be great difficulties in making the tax cut

contingent upon the total 1964 budget—which would not be known until the last expenditure was made in June of 1964. But to say that the tax cut will only be effective if the President personally states that the budget for 1964 will not exceed \$97 billion amazes me.

If he says it, knows when he says it—that it is not true, and we know it is not true, does that make us coconspirators? And if so, who are we trying to fool, ourselves or the American people? Of course, he would not say it if he did not think it were true, so suppose he says it, believes it true, when we know it is not. What is our responsibility? Or, if he says it, and we increase the budget, what is our responsibility? Or, if you vote for this motion, are you really saying that the Congress has no responsibility for this budget? Or finally, and this is what I think a vote for the motion to recommit is saying, "Mr. President, no matter what you know about the budget in January, do not tell us. We can not stand it. Let us dream a little longer."

Therefore, I am not going to vote for the motion to recommit. I am for facing reality. If it is the opinion of the President in January, that this Nation needs to spend a hundred billion dollars to insure our security and promote our prosperity let him say so.

But I would go further. If it is the opinion of this Congress that \$96 billion is sufficient, then let us enact exactly that much.

If we are a coequal branch of Government we should start acting like it. We need far better independent means of determining the validity of the programs and the budget proposed by the Executive than we now have.

When we want to check on a program; to discover what the Executive is spending the money for, to whom do we turn? Why the Executive, of course. It is roughly like Macy's asking Gimbels, or Ford asking General Motors. We need our own experts so that we can be experts as a check on the Executive.

Let me give you an example; recently I had occasion to inquire the number of individual shareholders in the country. I asked the staff of the Joint Economic Committee, who told me that an unpublished report of the Securities and Exchange Commission showed that in 1959 there were 33 million individual owners of 10 billion shares of stock. When I taxed the Treasury with this information, they informed me in writing that the 33 million must refer to issues; the New York Stock Exchange said there were 17 million owners. Personally, I am inclined to believe the Joint Economic Committee staff is correct.

The point I make is that we are fully as responsible for the budget as the President. We just never have given ourselves the tools to carry out that responsibility. When the Executive comes up here to ask for a new program or to continue an old one; whether Democratic or Republican, they are really salesmen, and you cannot expect them to knock the product. They are here to put the best light on that program they can. We should have sufficient trained staff on the committees to develop independent judgment and not sit here voting for or against a President or for any other reason than sound understanding of that program. Naturally I am sure everyone struggles to do just that.

I am for this tax cut. For too long American individuals and American businesses have paid too much taxes. I am against the motion to recommit, or any motion that in effect makes children of us saying, "Tell me, Mr. President, what I want to hear, then I'll vote for your bill." I am for saying to the President, "You send us the budget as you see it, and we, as responsible men and women, will send it back as we see it." Then and only then will American Government function as the founders intended.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 20 minutes to the gentleman from Michigan [Mr. KNOX].

(Mr. KNOX asked and was given permission to revise and extend his remarks.)

Mr. KNOX. Mr. Chairman, it has been factually stated that taxation at the Federal, State, and local levels takes one-third of America's national product from its producers—the people. This fact demonstrates the extent to which our fiscal policy has socialized the productivity of our citizens—a process of tax and spend that has been termed fiscal socialism—and this fact also demonstrates a compelling need for tax reduction.

When there is added to the first fact of tax confiscation, a second fact that Federal, State, and local spending exceeds tax revenues by many billions of dollars, and a third fact that total Federal, State, and local debt nearly equals our total national product, we begin to bring into focus the urgent and compelling need of a well-ordered fiscal policy for our Nation.

These three facts in combination make it clear that as compelling as tax reduction may be, spending and debt reduction are objectives of preeminent priority.

These three factors of taxes, expendi-

tures, and debt are at the heart of our consideration and deliberation on the tax bill now before this committee. If there are problems that confront our Nation today with respect to taxes, spending, and debt, each of us in this historic Chamber must evaluate for himself the extent to which his past words and acts, his past votes, contributed to the creation and magnitude of those problems. Each of us must ask himself, "Have I voted for excessive spending and thereby advanced the cause of fiscal socialism or have I worked for fiscal responsibility to promote American free enterprise and individual opportunity?" We must inquire as to how our individual votes have served to create or avoid the fiscal problems that now confront us.

Such reflection and review is important because of the relationship of our past actions to present problems. Do the dedicated spenders have the same freedom to vote for tax reduction today as those who have waged an unrelenting, and too often unsuccessful, campaign for frugal government? Should this be the day of atonement when the advocates of credit-card government are forced to pick up the tab for their refusal to insist that this Government pay its own way so that our descendants will not be burdened with our debts?

Mr. Chairman, regardless of the answers to those questions—regardless of whether a colleague is in the ranks of the spenders or the ranks of the provident—the fiscal facts of our national existence make it all too abundantly clear that the responsible course for our Nation's future demands that the bill, H.R. 8363, in its present form be rejected. It is all too abundantly clear that the very minimum of fiscal discipline demands at least that this bill be improved by the adoption of some meaningful curb on spending before the bill receives a single affirmative vote in this House of Representatives. It is to that end that I urge that the bill be improved by favorable action on the motion to recommit with its instructions in behalf of fiscal discipline and control.

Mr. Chairman, early in our history we were warned of the peril to representative government that would come from the mistaken belief that it was possible to vote unpaid-for benefits out of the Public Treasury. We were warned that under the circumstance of deliberate debt our Republic could not survive. In keeping with that fiscal wisdom, the American people as recently as 2 years and 8 months ago were urged to ask what they could do for their country rather than what their country could do for them.

Since those stirring words were set forth in a truly outstanding inaugural address, our Nation has been led by an administration whose virtually every act has been a direct and deliberate contradiction of that timely request for patriotic citizen forbearance. Under this administration the only Americans who have been asked to sacrifice are those citizens who are risking their lives in the undeclared war against communism, and those citizens who may be yet unborn who will have to pay our debts because we asked for more from our country than we were willing to give in taxes.

Mr. Chairman, what are the facts of how much we have given to, and how much we asked of, our country since January 1961? The Congress has received more than 200 administration recommendations for new and bigger spending programs that were significantly lacking in general public support. The administration spokesmen have chastised and rebuked the Congress on those few occasions when we have voted for sound economy measures. The administration has trespassed on the constitutional authority and obligation of the Congress with respect to the Nation's purse strings by trying to coerce the Congress into actions that the Congress, left to its own wisdom and good judgment, would not do. This administration for the first time in our peacetime history has sought to embark this great Nation on the perilous fiscal course of planned deficit financing. This administration seeks to indulge the present by encroachment on the future.

Mr. Chairman, the Kennedy administration's fiscal record since assuming office in January 1961 reveals these facts: A balanced Eisenhower budget for fiscal year 1961 was unbalanced under President Kennedy by increased spending and a deficit of \$3.9 billion resulted. In 1962 spending was increased \$6.5 billion over the previous year and the deficit was \$6.4 billion. For 1963 the spending increase over the previous year was \$4.8 billion and the deficit was \$6.2 billion. The estimate for 1964 calls for a spending increase of \$5.4 billion with a deficit of \$9.2 billion. Current estimates for 1965 call for a minimum spending increase of \$4 billion to a recordbreaking level of \$102 billion and a deficit of \$10 billion. Thus, the administration fiscal policies from fiscal year 1961 to 1965 will add approximately \$25 billion to the spending level and will add \$35 billion to the public debt.

Mr. Chairman, it is in that alarming fiscal context of unrestrained spending, chronic deficits, and soaring debt that

consideration is now being given to a tax reduction measure involving a revenue loss to the U.S. Treasury in the magnitude of \$11 billion. It is against that backdrop of fiscal failure and broken pledges that the Congress is now asked to enact tax reduction on the basis of a vague assertion of frugality in the future; in effect, an assertion that the compulsive spenders will be less compulsive. If economy is to be our byword in the future, why the strenuous objection to limiting spending in fiscal year 1964 to \$97 billion and to \$98 billion in 1965? Why is there objection to the Congress acting to assure that tax reduction will come into reality only if we fulfill our commitment to make a modest step in the direction of controlling our propensity to spend?

Mr. Chairman, I will close my comments on the fiscal considerations involved to this tax legislation with this rather obvious comment. No person present on this floor who understands the needs and workings of our private enterprise system will doubt the need for sound tax reduction enacted under conditions of proper control of our fiscal affairs. Similarly, no informed person will disregard the dismal record of the past and the doubtful prospects for avoiding more of the same record spending, persistent deficits, and stifling debt in the future. No informed person will endanger our economic opportunity by inflation nor will jeopardize our national strength by compounding our past unwillingness to pay our own way. Let our Federal Government provide meaningful tax reduction for our people by having that Government start now to live within its means.

Mr. Chairman, in the brief time that remains to me I will refer to an aspect of the so-called substantive reforms that should be of concern to every Member present. I am deeply concerned over the greatly increased complexity that will be introduced into our tax structure by the adoption of many of the substantive changes that are included in this bill. These substantive changes include the disallowance of certain State and local taxes as tax deductible items, involves changes affecting life insurance protection and adverse modifications of the law applicable to certain employee benefits, and vastly increased compliance problems for the owners and managers of big and small business.

The effectiveness of our tax system at the Federal, State, and local levels is largely predicated on the voluntary acts of our taxpayers to report and pay their liability in full as it becomes due. The enactment of this bill with its marked

increase in complexity imposes a considerably greater burden on our citizens in their efforts to comply with a law that already defies understanding.

To this end I received some very well considered comments from a valued constituent of mine who happens to be an outstanding tax practitioner. In his letter he remarked in part as follows:

My partner and I are becoming very alarmed at the effect on our community of the ever-increasing complexity of tax return preparation, particularly in the case of individual taxpayers.

* * * * *

In our own accounting practice, we find that we are no longer able to employ people with the ability required to prepare tax returns for small investors or businessmen at a wage that makes it economically feasible for us to continue this type of service. Next winter we expect to have a minimum fee for tax return preparation of \$200, which will eliminate the great majority of taxpayers, of course.

We have contacted a man who operates a bookkeeping service * * * to see if he would be able to take over some of the work that we will be dropping. He informed us that he is no longer going to prepare any tax returns for anyone other than his monthly bookkeeping clients. He stated that the rush of business last winter was more than he could stand physically and that he is not able to get adequate fees for the time he feels obligated to spend when returns which he has prepared are examined by revenue agents.

* * * * *

I am sure that you can see that the quality of tax return preparation is dropping rapidly and so also is the degree of compliance with the law. We feel that it is unfair to fill the tax laws with a lot of tax relief that the majority of taxpayers cannot enjoy only because it is too complicated for them to understand.

I hope that you will use your influence to correct this situation.

I presented his observations to the Secretary of the Treasury during the committee executive sessions held on this tax bill. I regret that the constituent's views and my own advocacy were not sufficiently persuasive with the administration to have it abandon its insistence on the adoption of these unwarranted and unwise substantive changes in our tax law.

Mr. Chairman, I will close on this note. Prior to coming to Congress it was my privilege to serve a number of years as Speaker of the House of Representatives in the Michigan State Legislature. From that rich experience and from my tenure in the Congress of the United States, I have learned that it is not an easy course to insist on government living within its means and to require that a priority be established for the accomplishment of meritorious objectives only as they can

be afforded. But that legislative experience has taught me also that a government that does not abide by fiscal prudence and expenditure restraint is destined to render disservice to the very people it seek to serve. Deliberate debt is never an answer to a governmental problem that demands solution. The assurance of our future as a Nation is inescapably involved in our determination to deal with our fiscal problems forthrightly and honestly without seeking the temporary expedient of failing to pay our way. When we seek to meet the demands of the present by encumbering the productivity of the future, we have enlarged the magnitude of the problems that confront America both today and tomorrow.

I have referred to my service as Speaker in the Michigan State Legislature to make two points. The first concerns the meaningless sense of Congress expression in section 1 of the reported bill. This section urges the President to join with the Congress to use all "reasonable means to restrain Government spending." Do not the future taxpayers of this Nation—our children and succeeding generations—deserve more from us than that at a time when we are seeking to give ourselves an \$11 billion tax reduction? What is reasonable to the President? To Mr. Heller? To Mr. Dillon? To you? To me? Is the meaning the same? Of course not; and who is to determine the legislative intent? The Executive will have that prerogative in large measure. My colleagues, I need only remind you of the Executive's in-

[P. 17007]

ability or unwillingness to understand specific legislative language such as in the arbitrary Federal action disqualifying Michigan under the program for aid to dependent children of the unemployed.

The CHAIRMAN. The time of the gentleman from Michigan has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. KNOX. Mr. Chairman, the Congress of the United States passed an act to provide matching funds to the States for aid to dependent children of the unemployed. The State of Michigan was one of the first States that passed an act and followed the congressional intent, because the congressional act provided that the definition of unemployed to be used by the respective States shall be defined by the States. However, an official of the Department of Health, Education, and Welfare decided that they did not want to release any funds to the State of Michigan for ADC of the un-

employed, saying that we did not conform in regard to the definition of the unemployed. But, still, the Congress has defined what program the States would have to set up. Therefore, today Michigan is not receiving any of the funds. Now, the same thing can happen here unless we spell it out, what we mean about expenditure control, in the proper language in order to bring about some persuasion upon those who have to do with the submission of the budget and the allocation of funds after Congress has made the appropriations. If we really mean it is the sense of Congress to reduce spending, and I do, then let us put some teeth in it so it will work. Let us save your money, the money of our constituents, and more importantly, the money of future generations. We can do this by putting a brake on spending now.

The second reason I referred to my service as speaker in the State legislature is concerned with the capacity of government to go into debt. It is sometimes maintained that the borrowing capacity of a State government is limited because it has no authority to print and issue money and that this restriction does not apply to the Federal Government. My colleagues, let me assure you that the limit of our Federal credit may be closer at hand than many of us realize.

If we manage our affairs in an inflationary way the strain of our balance-of-payments problems and its impact on our monetary structure can more swiftly produce an immediate crisis. The seriousness of the problem is demonstrated by a few statistics. The U.S. gold supply is about \$15.5 billion. Of this amount of gold approximately \$12 billion must be held as a legal reserve requirement to back our currency, leaving \$3.5 billion as "free gold." However, foreign governments and nationals hold more than \$20 billion in dollar obligations which could be converted into a demand for gold almost overnight. There recently has been a serious increase in dollar redemptions for gold, and the second quarter of this year produced an alarming increase in our balance-of-payments deficit to an annual rate of \$5.2 billion.

These considerations make obvious the imperative need of maintaining and strengthening world confidence in the soundness of the dollar. To this end we must protect the purchasing power of the dollar against debasement; we must curtail the growing U.S. bureaucracy overseas; we must restore a semblance of reasonableness to our foreign commitments and enlarge the role of private enterprise in the development of the

emerging nations; we must demonstrate our determination to have our free world allies assume a more appropriate share of the burden of preserving their own national integrity against Communist encroachment. More importantly we must avoid the decline in confidence that will inevitably arise from the profligate handling of our fiscal affairs and a prolonged series of deficits.

Mr. Chairman, the time is close at hand when we will be called upon to vote our convictions on this important issue of tax reduction and fiscal policy. My conviction is that tax reduction is sound and proper only if we restrain the spending demands of the administration by adopting the meaningful limitation prescribed in the motion to recommit. I am reluctant to risk America's greatness and its future by supporting tax reduction in the face of any less of a guarantee that we will curb our spending and halt the rise in our Nation's debt.

(Mr. SCHNEEBELI asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. SCHNEEBELI. Mr. Chairman, I would like to emphasize the additional views which I included in the report on H.R. 8363. These views state that I am in full agreement with my Republican colleagues that tax reduction of \$11 billion based upon a mere wish or a hope that expenditures will be controlled is fiscally irresponsible. Mere protestations of economy on the part of the Kennedy administration, which are belied by its actions in constantly presenting new and expanding expenditure programs to the Congress, are not sufficient to convince me that we will be able to balance the budget for the foreseeable future.

On the other hand, I am convinced that the excessive tax burden should be alleviated both with respect to individuals and with respect to business. While there is considerable risk in reducing taxes before reducing expenditures, I would be willing to take that risk if tax reduction were accompanied by a corresponding statutory deterrent to increased spending.

Such a deterrent was presented by the amendment offered by the Republicans in committee and this amendment was narrowly rejected by the committee, only as a result of extreme administration pressure. If the administration is sincere in its stated intention of holding down expenditures, why should it oppose an amendment that merely translates this intention into legislative language?

Why is it that with more than 20,000 replies to a questionnaire 72 percent of my constituents and over 80 percent of the business leaders in my district, when directly queried, voted to forgo the benefits of the proposed tax cuts? We all know the answer: It is because of the mounting fears over our growing public debt at home and the run on our gold from abroad.

We have an opportunity to allay these fears by adopting an effective restriction on the ever-increasing Federal deficits which are at the root of these problems.

We offer a specific and certain brake on Federal expenditures and deficits, without which the majority of our people, including former Presidents Truman and Eisenhower, are opposed to this bill.

The confidence of business would be restored in the knowledge that impending runaway Federal deficits were being restrained by this legislative formula, which would serve to test each expenditure against the pocketbook of the voter.

In my opinion, the adoption of the proposal, whereby tax reduction would be forestalled if the Kennedy administration does not keep its promises to maintain closer control over expenditures, would offset the fiscal risks involved in enacting this bill in the face of a large deficit for fiscal 1964. Under these circumstances, I would support the bill. Accordingly, I hope that the expenditure-control amendment will receive favorable consideration by the House, as I believe in tax reduction and would like to vote for this bill.

Recent discussion with people in my area, while I have been home, substantiate this earlier response from both the voting constituency as well as the business leaders and I am convinced that H.R. 8363 should be approved only if the proposed expenditure restraint provisions are included in the bill.

Early this month I conducted a survey on this question of the tax reduction among the leading industrialists in my 10-county area in north central Pennsylvania. Of the first 18 replies received 15 of them stated that they would approve of a tax cut only if it were accompanied by a very strict expenditure control, which, they observed, was not now being effected in Washington. These are the people who would profit twice by a tax cut, both as corporation large stockholders as well as high-bracket personal income earners. The results of this recent survey among the highest ranking businessmen were most conclusive on this point.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the distinguished gentleman from Oregon [Mr. ULLMAN].

(Mr. ULLMAN asked and was given permission to revise and extend his remarks.)

Mr. ULLMAN. Mr. Chairman, as a relative newcomer to the Committee on Ways and Means, I want to pay my respects to our chairman, the gentleman from Arkansas, the Honorable WILBUR MILLS, one of the most able and most distinguished Members of this body. It is indeed a stimulating experience to sit on that committee facing some of the most complicated problems to come before our country and our Congress in this decade, and watch the proceedings

[P. 17008]

over a period of 8 months, digging into area after area of the Internal Revenue Code, analyzing every aspect of that program with an eye to the overall effect on the economy of this country, and to see gradually worked out a bill that constitutes a soundly balanced program, a bill that does go to the heart of the problem facing this country of ours, a bill, I am sure, that will accomplish the purposes we are setting out to accomplish.

I also want to commend our chairman for his eloquent plea this afternoon. Certainly none of us here has heard a more learned exposition of the issues that face this country in this bill that is before the Congress of the United States.

I would agree with the chairman that this is the most important and far-reaching piece of economic legislation that has come before this Congress, certainly during the time I have served here. Its effects indeed will be far reaching, not just for this year or the next but may very well set the pattern of growth in this country for decades to come.

As the chairman so eloquently stated, our high tax rates date from the time we were engaged in a great world war. We were seeking then to dampen the private sector of the economy in order to put the full potential of our resources into the great war effort that faced the Nation, so we raised the tax rates and we did put a damper on the private sector. We came out of the war and emerged into a period of uncertainty and continued those high rates because this is not an ordinary time of peace as some would have us believe. We have been engaged in a cold war for these many years. We have continued to put the great majority of our resources to work in the area of national defense, in the area of meeting crisis after crisis around

the world, to bolster the forces of freedom and to build up the free world. That is why the taxpayers of this Nation have been willing to dedicate such a great part of their income to the continued national defense of this Nation of ours.

But now we have emerged into another era in our history, where we must face up to new problems, analyze the future of our country, and come to some basic decision on economic policy. As the chairman told us this morning, we made the basic decision in this bill, that we were going to achieve the growth that we must achieve if this Nation is to move forward in the private sector of our economy. That is the essence of what we are doing in this bill. The only alternative is to move in the direction we have been moving, to try to meet these pressing problems that face our economy in the public sector, to expand our spending programs.

With those alternatives in mind, this administration first made the decision that we should move our growth into the private sector and move our country ahead along the lines of private enterprise, that has made this Nation great.

Then the proposal came to the committee, and as the chairman told us today, he had some misgivings and many others had some misgivings about this problem of cutting taxes in this critical time, with financial deficits facing us not only this year but next. He came to the decision that the way to come to a soundly balanced budget was to free the private sector of the economy through a tax cut. I too came to this decision and I decided that this was the only way we are ever in our time to achieve a soundly balanced budget. That is the theory behind this tax cut. That is why it was reported by the Ways and Means Committee. That is why it is before this House and is going to pass this House, I hope tomorrow afternoon.

Let us look very briefly at the tax cut and some of the problems that confronted us.

You know in a way it is truly amazing we were able to get any kind of a tax cut realizing the complexities of the problem that faced us. We have here over 300 pages of technical language which changes area after area of the Internal Revenue Code. There were basic policy decisions to be made. For example, how do you stimulate the economy? Do you do it by shoring up the purchasing power of the people of this great Nation of ours? Or do you do it by expanding the investment capital so that industry may move ahead? Of course, the program that was sent up by the administration faced both of these alter-

natives and said what we need is a balanced program. We need to shore up the purchasing power and we need to increase investment capital. During the long consideration before the Committee on Ways and Means where many, many aspects of the program were deleted and other new aspects were added, we had to continue to bear in mind this balance; we had to continue to weigh the different alternatives. In my own opinion, we came up with as balanced a program as you would ever be able to achieve. I was most concerned with keeping the tax cuts where they would do the most good among the people of this Nation in the way of stimulating purchasing power, because I happen to be one of those who believes that the way to shore up and the way to arrive at a sound prosperity in this Nation is through increasing the buying power of the people of the country. This is true because if the people have money to spend, I am not too much concerned about the ingenuity of American business to move ahead and expand their business and make it possible for the people to spend the money they have.

So I was extremely pleased when we devised the formula of dividing the lowest bracket into four segments. Many people fail to realize that more than half of all the taxpayers of America are subject only to the lowest bracket, which is now the 20-percent bracket. What we did in the bill was to take these some 45 million taxpayers and divide them up into four separate brackets and then to move the first \$500 of income down into the 14 percent category; then 15 percent for the next, and 16 percent for the next, and 17 percent for the next bracket. So we have now four brackets instead of one at that level of income which are much more realistic and which, in my opinion, are more equitable to the taxpayers of the country.

On top of this then, we changed the standard deduction in a manner which is new in our tax laws, and I think a very definite good step forward, to give the lowest income earners of this Nation the break I feel they deserve.

Mr. Chairman, with the new formula for the minimum standard deduction and the four-way split in the lower bracket, I think we have weighted this tax cut toward the people in this Nation of ours who need it the most, and the people who will spend every dime of money that they get in their increased take-home pay starting next January 1.

We have many, many other features in this bill that in my opinion will improve the tax structure of this Nation and make it more equitable. I will not

go into them, but I want to say, in the field of business incentive, one of the most important things we did was to put into immediate effect an 8 percentage point reduction in the corporate income tax on the first \$25,000 of earnings of the corporations of this country. This gives a very substantial and definite break to small business and to small corporations of this country. It gives them the incentive to move forward and compete. I think this will go a long way toward stimulating and building the economy.

Mr. SMITH of Iowa. Mr. Chairman, will the gentleman yield?

Mr. ULLMAN. I certainly will yield to the distinguished gentleman from Iowa.

Mr. SMITH of Iowa. Back in the war days of the 78th Congress, President Roosevelt asked for a \$12 billion increase in taxes and the Congress refused. It demoralized our soldiers overseas to think that the folks back home would not be asked to increase their efforts to support the war. After that came the big tax reduction that went through in the 80th Congress over President Truman's veto. We accumulated a \$225 billion debt in 4 years during World War II and that is three-fourths of the total debt for all time. The fact of the matter is that we have never paid the World War II debt, and I believe the most irresponsible fiscal action ever taken in the history of the country was that tax cut by the 80th Congress at a time when we had too much money chasing too few goods. Following that we had the greatest inflation we have ever had in this country, and that was the direct cause.

My question is, in view of the fact that the motion to recommit seems to say we will never pay anything on the debt—if expenditures are less than income, then we will reduce income to the Treasury and, in view of the fact that this bill provides for a reduction in income regardless of what happens to the debt, are we to assume then that we are never going to pay for this bungle that was made in the 80th Congress in refusing to pay for the World War II debt at a time when there was a shortage of goods and excess of money available?

Mr. ULLMAN. Of course, the theory behind this tax cut we are today discussing, as I said before, is to stimulate growth. The only way we will ever pay

[P. 17009]

the debt is for this economy to move ahead and achieve the growth we need. It is the only way we will be able to stay competitive around the world and

the only way we will be able to meet the problems of automation and unemployment. We have been in a period of up and down fluctuations in our economy with drastic gyrations during the past 10 years and, as the chairman knows, the times when we have the deficits are the times when the economy goes into a recession. If we can do what we are trying to do here, which is establish a sound growth pattern and eliminate the gyrations in the economy, we will arrive at a soundly balanced budget. In my opinion, it is the only way we can soundly approach the problem of paying the national debt.

Mr. SMITH of Iowa. In other words, the theory is that pump priming in the private sector will actually return much more than you put in through deficits?

Mr. MILLS. Mr. Chairman, would my friend from Oregon yield?

Mr. ULLMAN. I yield to my distinguished chairman, the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. I trust that the gentleman from Iowa, for whom I have the greatest respect, would not say that when Congress reduces the tax burden on the American people, thereby leaving in greater amount with the people what they have earned, that such action by the Congress would be "pump priming." I would not so characterize that action. What I think better characterizes that action is this: That we decided that the private sector can do more if we leave more of what it initially has after taxes, and in return for that action we would expect more out of the private sector and there would be less need for more out of the Government sector.

Is not that the gentleman from Oregon's impression of it?

Mr. ULLMAN. I could not agree more with the chairman. Of course, I could not in any manner, shape, or form to express it so well as the chairman.

Mr. SMITH of Iowa. If the gentleman will yield, I was using pump priming in the sense that in a year when we are admittedly going to receive less in income than we will spend, it would be pump priming in the sense that it would require borrowing more money. In other words, we would give people bonds for part of the money spent.

Mr. ULLMAN. I certainly could not agree with the analysis of the gentleman that letting people keep their own money is pump priming, and I urge the Members to support the bill and vote down the recommittal motion.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield such time as he may require to the gentleman from Missouri [Mr. HALL].

(Mr. HALL asked and was given permission to revise and extend his remarks.)

Mr. HALL. Mr. Chairman, it is perhaps ironic that on the same day that the House begins debate on the tax bill, that Time magazine has published a résumé of how our foreign aid funds were spent in 1962. It is ironic because the administration refusal to accept House cuts in this year's foreign aid bill is one of the reasons why Republicans are convinced that the New Frontier has not, does not, and will not exercise restraint in curtailing expenditures, without specific instructions to do so. The figures in the table, which I will ask unanimous consent to insert in the RECORD, illustrate the great difficulty New Frontiersmen have in distinguishing essential from nonessential, and even harmful spending.

In Africa, where we are supporting virtually every known tribe, 31 different countries, we are making our biggest donations to those countries on whom we can depend the least in the cold war. Our biggest contribution goes to the former Belgium Congo, \$66.9 million, in an area where you cannot tell your friends from your enemies without a scorecard, a country completely lacking in fiscal stability which is our absolute requirement in the Latin America aid program.

Our second biggest contribution in Africa, \$63.8 million goes to Ghana, a leftist nation, headed by a dictator who calls himself "The Savior," who has imprisoned most of his political opponents, and who consistently stands alongside the peculiar brand of neutralists who identify themselves with state socialism and the Communist bloc.

Our third highest contribution in Africa, \$30.7 million goes to Morocco, a country which has forced us to abandon our Strategic Air Command base there.

We also gave \$6.1 million to Guinea, a country which recently helped the Soviet Union establish a direct airlink with Cuba by making its airport facilities available, facilities which we helped build.

Our second biggest donation in the Near East and south Asia went to Pakistan, once thought of as our staunchest friend, but now making friendly overtones to Red China. And even more paradoxically, much of this aid is in military hardware, most of it pointed, not at Red China, but at India, to whom we made our largest contribution, \$465 million.

In the Far East, we gave \$29.1 million in economic assistance and \$9.4 million in military aid to Cambodia and \$22.8 million to that great citadel of freedom

and democracy, Indonesia. In the past month, Cambodia has publicly declared that if the "chips are down" they can expect support from Red China, and Indonesia is threatening armed warfare against the new Government of Malaysia which we support and helped in birthing.

We also gave \$41.9 million to the United Arab Republic, that staunch "supporter of peace" in the Near East, \$1.4 million to British Guiana, communism's second best ally in Latin America, ranking only behind Cuba, \$6.8 million to Haiti where the CIA probably is spending an equal amount trying to depose their dictator, and \$27.5 million in Laos which serves as the corridor for Communist subversion aimed at Thailand and South Vietnam. There are many other examples. Yet the President says our action in cutting the aid bill was partisan and shortsighted, and he says no restraints are necessary in this tax bill.

If that is so, then I submit that black is white, day is night, up is down, right is left, near is far, and the Washington Senators will win the American League pennant. I will vote for an amendment to limit spending, and pray that when it is adopted we will define essential spending as that which helps our friends, and nonessential spending as that which helps our enemies.

*Foreign aid: How it was spent in 1962
(Incomplete)*

[In millions of dollars]

	Economic	Military	Total
Europe:			
Belgium.....		15.9	15.9
Denmark.....		44.4	44.4
France.....		5.0	5.0
Italy.....		70.7	70.7
Luxembourg.....		.02	.02
Netherlands.....		25.3	25.3
Norway.....		47.1	47.1
Poland.....	1.4		1.4
Portugal.....		7.8	7.8
Spain.....	14.5	35.3	49.8
United Kingdom.....		21.2	21.2
West Berlin.....	.05		.05
West Germany.....		.4	.4
Yugoslavia.....	.5		.5
Infrastructure ¹		56.1	56.1
Mutual weapons development program.....		8.0	8.0
Europe area undistributed ²		33.2	33.2
Subtotal.....	16.45	370.42	386.87
Far East:			
Burma.....	.9		.9
Cambodia.....	29.1	9.4	38.5
Indonesia.....	22.8		22.8
Japan.....	.4	70.5	70.9
Korea.....	125.7	218.7	344.4
Laos.....	27.5	74.5	102.0
Nationalist China.....	28.4	174.9	203.3
Philippines.....	4.0	27.2	31.2
South Vietnam.....	124.3	176.5	300.8
Thailand.....	34.0	81.0	115.0
Regional ³	2.2		2.2
Far East area undistributed ²		15.9	15.9
Subtotal.....	399.3	848.60	1,247.90

**Foreign aid: How it was spent in 1962
(Incomplete)—Continued**
[In millions of dollars]

	Economic	Military	Total
Near East and south Asia:			
Afghanistan.....	38.5	-----	38.5
Ceylon.....	1.4	-----	1.4
Cyprus.....	.7	-----	.7
Greece.....	30.3	119.4	149.7
India.....	465.1	-----	465.1
Iran.....	54.4	53.06	107.46
Iraq.....	.8	.04	.84
Israel.....	45.4	-----	45.4
Jordan.....	43.8	3.9	47.7
Lebanon.....	.4	.05	.45
Nepal.....	3.8	-----	3.8
Pakistan.....	240.9	(4)	240.9
Saudi Arabia.....	-----	(4)	-----
Syria.....	23.9	-----	23.9
Turkey.....	73.2	179.3	252.5
United Arab Republic.....	41.9	-----	41.9
Yemen.....	6.8	-----	6.8
CENTO.....	2.4	-----	2.4
Regional ³	3.7	-----	3.7
Near East and south Asia area undistributed ²	-----	55.4	55.4
Subtotal.....	1,077.40	411.15	1,488.55

Latin America:			
Argentina.....	21.9	2.2	24.1
Bolivia.....	31.8	1.4	33.2
Brazil.....	84.5	22.8	107.3
Chile.....	142.4	8.3	150.7
Colombia.....	37.9	9.8	47.7
Costa Rica.....	1.9	.5	2.4
Dominican Republic.....	26.0	.9	26.9
Ecuador.....	19.9	2.3	22.2
El Salvador.....	3.1	.8	3.9
Guatemala.....	4.2	2.9	7.1
Haiti.....	6.8	1.2	8.0
Honduras.....	2.9	1.0	3.9
Mexico.....	20.6	.3	20.9
Nicaragua.....	3.5	1.8	5.3
Panama.....	12.4	.8	13.2
Paraguay.....	1.1	.5	1.6
Peru.....	26.6	10.0	36.6
Uruguay.....	.3	1.8	2.1
Venezuela.....	11.1	.9	12.0

[P. 17010]

British Guiana.....	1.4	-----	1.4
British Honduras.....	.5	-----	.5
East Caribbean.....	2.6	-----	2.6
Jamaica.....	1.0	-----	1.0
Surinam.....	.4	-----	.4
Regional ³	13.4	-----	13.4
Latin America area undistributed ²	-----	1.7	1.7
Subtotal.....	478.20	71.90	550.10

Africa:			
Algeria.....	.3	-----	.3
Cameroon.....	12.5	.3	12.8
Central African Republic.....	.2	-----	.2
Chad.....	.3	-----	.3
Congo (Brazzaville).....	1.2	-----	1.2
Congo (Leopoldville).....	66.9	-----	66.9
Dahomey.....	.7	.1	.8
Ethiopia.....	6.3	11.7	18.0
Gabon.....	.4	-----	.4
Ghana.....	63.8	-----	63.8
Guinea.....	6.1	-----	6.1
Ivory Coast.....	2.1	.1	2.2
Kenya.....	3.2	-----	3.2
Liberia.....	10.8	1.8	12.6
Libya.....	11.2	.7	11.9
Malagasy Republic.....	.7	-----	.7
Mali.....	2.6	.24	2.84
Morocco.....	30.7	(4)	30.7
Niger.....	1.2	.1	1.3
Nigeria.....	21.0	-----	21.0
Rhodesia - Nyasaland.....	2.8	-----	2.8

**Foreign aid: How it was spent in 1962
(Incomplete)—Continued**
[In millions of dollars]

	Economic	Military	Total
Africa—Con.			
Senegal.....	3.0	2.5	5.5
Sierra Leone.....	1.5	-----	1.5
Somali Republic.....	11.5	-----	11.5
Sudan.....	9.8	-----	9.8
Tanganyika.....	2.4	-----	2.4
Togo.....	1.2	-----	1.2
Tunisia.....	28.2	(4)	28.2
Uganda.....	3.6	-----	3.6
Upper Volta.....	.9	.1	1.0
Zanzibar.....	.1	-----	.1
Regional ³	8.1	-----	8.1
Africa area undistributed ²	-----	16.7	16.7
Subtotal.....	315.30	34.34	349.64
Nonregional.....	-----	95.07	95.07
Grand total.....	2,286.65	1,831.48	4,118.13

¹ Pipelines, airfields and other troop-support expenses.

² Classified items; also administrative expenses for multinational programs.

³ "Regional" expenditures included multinational programs for given areas.

⁴ Classified.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 15 minutes to the distinguished gentleman from Ohio, a valued member of the Committee [Mr. BETTS].

Mr. BETTS. Mr. Chairman, the able colleagues who have preceded me in the debate today have clearly stated the issues that are before us. Having listened carefully to their remarks as well as having worked for 7 months as a member of the Committee on Ways and Means in the preparation of the bill now before us, I am impressed with these facts:

First. On the basis of fiscal performance we are hardly entitled to be considering a tax reduction bill. This fiscal performance finds that our last balanced budget was in 1960 and that spending has increased each year since so that spending that amounted to \$76.5 billion then is projected to reach \$102 billion in 1965—an increase of more than \$25 billion in 5 years. This fiscal performance finds each of these intervening years producing staggering deficits so that by the end of 1965 we will have added \$35 billion to our public indebtedness.

Second. I find that the advocates of tax reduction now are to a large extent those who supported the dangerous rise in spending and who opposed now responsible efforts to curb our spending proclivities so that sound tax cuts can be enacted within the framework of fiscal responsibility.

Third. I find that if we are to persist in our profligate ways of spending beyond our willingness to pay and we con-

tinue to pile up deficits and debt, then each dollar of tax reduction we provide will add \$1 to the debt to be passed on to our children.

Fourth. I find that the promise of meaningful economic advance, improved employment opportunities, and industrial progress can only be achieved in an environment that is free of inflation and that instills confidence that our governmental fiscal policies have as their objective a discipline and self-control that is not to be found in a program that starts from a deficit and urges that we tax less while spending more.

Mr. Chairman, the expression of concern over the enactment of this bill is not in opposition to tax reduction as such but is instead in opposition to the past and proposed spending excesses that make a tax cut such a hazardous experiment in terms of inflation, the purchasing power of wages, and our balance-of-payments problems. The relevance of these fiscal problems to our present consideration cannot be denied.

Mr. Chairman, shifting for a moment from the fiscal implication, I would point out that one of the difficulties in understanding this bill is that it is usually explained in terms of statistics and economic theories so involved and technical that one becomes completely lost. While these factors must weigh heavily in our deliberations, there is another respect of the bill that merits our attention. Much of the attention which the bill has received has been directed to the rate reduction or title I of the bill. However, an equally difficult problem is title II, which is called structural changes, and covers 250 pages. If enacted into law these changes would have no beneficial effect upon the economy of the country and would not on balance improve the equity of our tax structure. As a revenue-raising measures, they would produce a sum variously estimated from \$600 million to \$800 million which is relatively small as compared with the consequences of rate reduction. But the contribution these changes would make would be to add materially to the complexity of the revenue code. They would simply increase the bewilderment of taxpayers in making out returns. Instead of simplifying the ordeal of determining tax liability, these proposals would definitely complicate it more.

One group whose members certainly should understand complexity of tax laws is the taxation section of the American Bar Association. On May 21, 1963, the board of governors of the association adopted a resolution of the section of taxation, claiming, among other things, that Congress should defer con-

sideration of major structural changes until it can enact a program of basic reform. A report attached to the resolution points out that the structural changes merely serve to complicate the tax system without accomplishing the underlying objects of improving the system. The report states:

The history of the development of the Internal Revenue Code demonstrates that the piecemeal approach, such as reflected in the administration's proposals, inevitably produces exception upon exception and piles complexity upon confusion. In this sense it is a move in the wrong direction.

A tax attorney for a large corporation, after looking at the bill, wrote me as follows:

The one area that most concerns me about the tax laws is their incredible complexity and the trend to make them more complex with every session of Congress. I suggest that one of these days the revenue code will be so voluminous and so full of minutely detailed rules following no particular pattern that the Treasury Department will find the tax laws absolutely impossible of administration.

Mr. Chairman, one of the substantive changes to which it is appropriate to direct specific mention is concerned with the tax treatment of dividend income. Existing law recognizes, at least in part, the inequity in imposing double taxation—at both the corporate and shareholder levels—on dividend income. Presently, a shareholder is granted a \$50 exclusion and a 4-percent tax credit on his dividend income which is subject to the full impact of the corporate tax. The bill proposes to change this treatment by repealing the credit and increasing the exclusion to \$100. Now, I have no quarrel with the proposed increase in the amount of the exclusion because that is exactly the amount the House Republicans sought to provide in 1954 when this relief was granted. My concern is with the repeal of the 4 percent credit.

The effect of this change will be to restore in large measure the full thrust of the double tax on dividend income—the only type of income subject to double taxation. What element of tax principle or equity is involved in increasing the exemption on the one hand and repealing the credit on the other? Are we encouraging equity risktaking to provide jobs when we take this action? There are in our Nation approximately 17 million stockholders and many of these will be adversely affected by this unwarranted change. The creation of jobs requires a willingness on the part of our citizens to invest their savings in free enterprise. The repeal of the dividend received credit is a retreat from the very

course we need to follow in strengthening the economic vitality of our Nation.

I mention these considerations to point up the real problems involved in voting for the bill, if the motion to recommit should prevail. It is a decision between voting for a bill with controlled spending in spite of its complexities and inequities or voting against a highly complicated bill even though it means losing a chance to control spending. Since this may be the one and only opportunity to restrict Federal expenditures in a tax bill with its moral obliga-

[P. 17011]

tion on the Executive and Congress to follow through, I have concluded I will support the bill if the motion passes. As one who has consistently advocated tax reduction with spending reform, I find the bill with the amendment the only present solution.

However, I feel that the Ways and Means Committee and Congress, at an early date, should explore every possibility of simplifying the tax laws. While spending control takes first priority, tax simplification remains a legislative must and our annual tinkering with the revenue code ought to stop unless proven to be absolutely necessary.

Without the motion, the measure, to me, becomes completely indefensible and should be defeated. I say this with full knowledge that any proposal for tax reduction is always appealing.

It is to be acknowledged, a tax cut sounds good. The income tax rates are burdensome and any chance to escape some of the burden has a ready appeal. But a tax reduction means little, if in the end the taxpayer must pay more for the goods he has to buy. The plain fact is that a tax reduction with deficit financing has every element of the causes of inflation. To say that this is not true is to disregard the warnings of some of the top economists of the country. The minority report on H.R. 8363 discusses this subject thoroughly and to me, convincingly, quoting reputable authority. I hope every Member has read it. Let me read from the testimony of some of the witnesses who appeared before the Ways and Means Committee.

Prof. William H. Peterson, of New York University Graduate School of Business said:

Yes sir; I think it is inflationary. I think the short- and long-term impact, if enacted, the President's program, especially that part which is predicated on deficit financing, will tend to be inflationary. Much depends on how the deficit incurred by the Government, if it is so enacted, is financed. As you know, if it is financed through the

commercial banks, it will tend to generate far greater funds so that we will have the old situation of too much money and too few goods. This will be pure monetary inflation. If, on the other hand, the deficit financing is through individuals and groups of individuals, it tends to be noninflationary. However, I am afraid the latter approach would be defeating of the stimulation for demand that the President is seeking; so much depends on how this tax program is implemented if and when it were adopted.

The American Farm Bureau, appearing in opposition to the bill, told the committee:

Government spending must be paid for either through taxes or inflation. In our opinion, inflation is a far more serious threat to our future economic well-being than is the present tax structure. While taxes are undesirably high, our past record of fiscal management in the Federal Government has not earned us a tax cut.

On August 16, 1963, in a lead editorial the Washington Star noted that the theory of stimulating the economy by a tax cut is only a hope and added:

If the shot in the arm does not invigorate the economy as expected, and if Federal spending stays at the current high level, then a deficit-produced inflation may so cut into the value of the dollar as to wipe out the benefits of lower taxes. It is this possibility which alarms the orthodox legislators and which the administration discounts.

I am happy that the Star looks upon those of us who see this way as orthodox legislators. It has a ring of respectability like "Puritan ethics." So the concern about deficit financing and inflation covers a broad range of respectable groups and persons and is not something imagined by a few alarmists.

But there is not unanimous support for reducing expenditures and avoiding inflation. There are those in support of this tax-reduction legislation who also urge a continuation of high spending. They would risk the dangers of inflation. One of these is Mr. George Meany, the esteemed president of the AFL-CIO, who on the subject of spending reduction recently said:

Such a move would be deplorable. It would absolutely defeat the purpose of a tax cut. Instead of stimulating the economy, a large reduction in Federal expenditures would merely nullify the beneficial effects of the tax bill and would contract economic activity.

It is this attitude that we can spend more, tax less, increase our deficits, and add to our debt that make the spending limitation amendment contained in the motion to recommit an imperative condition precedent to favorable action on this bill. The adoption of this spending safeguard is essential to safeguard against inflation.

The treacherous thing about inflation is that it makes the economy look good temporarily and is mistaken for economic progress. With business humming and the country appearing to be prosperous, we are deceived into thinking it will never end.

As a matter of fact, inflation has a tendency to "feel good" to everybody but retired persons on fixed incomes and our children and grandchildren who must pay the bill. So, while tinkering with the economy by reducing taxes and increasing our deficits might be politically attractive or look good today, the long-range consideration ought to include every possible effort to eliminate the ravages of inflation tomorrow. The story of postwar Germany's phenomenal recovery is one of avoiding deficit financing and rejecting the Heller philosophy of spending. As Dr. Herman Abs, a prominent German banker, put it:

Deficit spending, if applied during the period of 1950 to 1960, would have prevented the German economy to grow as it did grow.

In our own country, during the last 32 years, there have been 26 years of deficits, during which time the value of the dollar shrank from 100 cents to 46 cents. This is inflation and instead of officially encouraging it, we should be building up a protection against it as we do against plagues and floods and all other forms of destruction.

In the Eighth District of Ohio, practically everyone I contact and hear from objects to a tax reduction without a reduction in spending for fear of inflation. This includes small businessmen, farmers, pensioners, and corporation executives.

In the main, the supporters of this tax reduction are spokesmen of big business who mistakenly believe they can meet inflation by raising the price of their products and spokesmen of the labor unions who attempt to match higher prices by bargaining for higher wages. International competition and our balance-of-payments position make such price-cost rises unthinkable. But, even so, there are a respectable number of corporation heads who feel that fiscal responsibility does not mean reducing income and merely hoping for less spending. In my file are many letters from business leaders in Ohio who feel this way. One manufacturer put it in these words:

The psychology of deficit spending must be reversed or the benefits of tax reduction will be completely lost in subsequent years.

The President has tried to quiet his critics by assuring them there will be respect for their views in the future. He asserts in years to come there will be

less Federal spending, a balanced budget and even payment on the national debt. But one robin does not make a spring and one statement does not make a balanced budget. The President also confused the issue by saying there must be a tax reduction without "ifs" and "whens." Does this mean that, after all, promises of spending control do not count?

There are only two ways to be sure of less spending. One is to wait a period of at least a year to see what results are accomplished. If, after all the appropriation bills have passed both Houses and all the supplemental bills have been acted upon, Congress has exercised spending discipline, then we will be ready for a tax cut. Personally, I would prefer this.

The other way is to adopt the motion to recommit and pass this bill with spending control. This is the immediate solution. As the Washington News put it last Friday:

The administration should accept this reservation. In our opinion it should put up an economy or shut up to tax reduction.

In other words, we Republicans are genuinely and sincerely for a tax reduction but only when it can be done in a way that will insure sustainable economic security and strength for the future of the country and future generations.

(Mr. BURKE asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. BURKE. Mr. Chairman, the American taxpayer for the first time in many years is within sight of some relief from the heavy burdens of Federal taxation which he has borne much too long. For the first time in many years, the American businessman is within sight of some degree of tax relief which should help restore our competitive position in world markets. For the first time in many years, the American consumer is within reach of much-needed additional funds with which to buy necessities of

[P. 17012]

life so that his standard of living can be improved. For the first time in several years, there appears to be an avenue through which jobs can be increased in this Nation without further going down the road of excessive governmental expenditures. This can be done by enactment of the most important single piece of legislation with which the 88th Congress will have to deal—the tax reduction bill of 1963.

There are many reasons why H.R. 8363, as the largest tax-relief bill in our history

has been officially designated, should be speedily enacted before the conclusion of this Congress. This bill, by removing the restraints which present heavy Federal taxation imposes on American business and the American economy, will permit our economy and our free-enterprise system to move forward without the degree of governmental expenditure support to which we are presently accustomed. The result of this highly significant legislation will be a much higher level of economic activity, a more productive use of our facilities, a more natural allocation of our resources, and a larger amount of money in the hands of the American consumer. This legislation will create jobs by lifting the repressive weight of wartime-imposed income-tax rates so that the economy itself can generate the additional jobs which we will need during the next decade to give our young people and our displaced workers an opportunity to find jobs. This bill will also have many other major advantages, including assisting in meeting the increasingly serious international balance-of-payments problem. It will assist in this problem because it will enable our American business to compete more advantageously in the increasingly competitive world markets.

This bill will benefit practically every American taxpayer from bottom to top. It will give relief to every American businessman. Moreover, the bill contains 23 major structural changes in our internal revenue laws which should make those laws more equitable and remove those provisions which have generally been considered to be unfair. For example, in addition to the top to bottom rate changes, the bill changes the minimum standard deduction so as to remove from the tax rolls many American families whose incomes are so low that they are barely able to subsist.

This bill is favored by all shades of American business and labor, including businessmen's organizations, labor organizations, business economists, and top students of the American tax system and the American economy. I know of no major organization that opposes this bill. As a member of the Committee on Ways and Means, I heard many weeks of testimony from top businessmen, top economists, and top labor leaders urging the enactment of this legislation. The Committee on Ways and Means has reported to the Congress the most significant tax relief measure in the history of our Nation. This legislation is responsible, and it is a fiscally sound approach to the problems which we face in the 1960's and which we will face in the decades to come. Chairman WILBUR MILLS, of the

Ways and Means Committee, has stated that this bill "represents a responsible discharge of our duties to sound fiscal management." By selecting the road to tax reduction, we on the committee and in the Congress have indicated that we reject the road to irresponsible Government expenditures. Indeed, we have written in section 1 of this bill a positive assertion of our position with respect to Government spending. We have chosen the road which relieves the American taxpayer of a degree of his heavy burdens; we have rejected the road which imposes greater burdens on him by accepting greater governmental expenditures. This is sound legislation; it is responsible legislation; and it should be speedily enacted by the Congress.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the distinguished chairman of the Select Committee on Small Business, the gentleman from Tennessee [Mr. EVINS].

Mr. EVINS. Mr. Chairman, the able and distinguished chairman of the Committee on Ways and Means, the gentleman from Arkansas, WILBUR MILLS, has effectively explained the provisions of this bill.

He has most eloquently and forcefully asserted many reasons why this bill should be passed in the national interest. I congratulate the chairman and the committee on bringing this bill before the House.

It is now more than 15 years since World War II and 10 years since the Korean conflict and yet the high tax rates—wartime taxes—continue in effect.

Tax reduction is long overdue—this I believe is generally recognized.

Today we have an opportunity to do something about it and we should not hesitate to act while we have this opportunity.

As chairman of the House Small Business Committee, I want to add my voice to the support which American small business gives to this legislation.

American small business needs tax relief and would greatly benefit under the terms and provisions of this bill.

As of today, our small business corporations pay a 30-percent income tax on the first \$25,000 of net profit. Additional profits are taxed at a rate of 22 percent—burdensome rates preventing growth.

This bill revises these rates by taxing the first \$25,000 profits of small business at 22 percent instead of 30 percent as at present.

It has been apparent for years that the present rates are unfair, principally because small firms earning \$20,000 profits per year should not be required

to pay the same rates on its total income as United States Steel would pay on that portion of its income.

This bill would remove this inequity—this unfairness.

Moreover, the provisions of this bill will permit small business facilities to grow and expand. It will encourage the formation of new enterprises.

As stated in the report of the Ways and Means Committee, small business experiences great difficulty in finding capital funds to finance their expansion—they must depend largely upon income remaining after taxes for any expansion.

I believe there is no one who will question the fact that the most powerful element in the greatness of our country today is the middle class—in other words the small business segment of our country. The future of the country depends, to a great extent, on how well we keep American small business industry active, prosperous, and growing.

Over the years the small business segment of our economy has been forced to struggle for survival.

With the high mortality rate and a decreasing share of the market, the small businessman has had great difficulty in continuing his fight—in staying in business. Moreover, the shopping center trend with heavy emphasis on national chain leases further imperils small business.

This bill provides an essential tool needed at this time. The bill is notably generous in its treatment of small business.

Some provisions are designed precisely with this in mind—and will help supply the capital for the survival and growth for our 4.5 million small business enterprises.

This is one of the most compelling reasons for supporting this measure.

Tax reduction for small business would be most meaningful.

Individual small businessmen would also directly benefit from the cuts on individual income tax rates, which would average 20 percent.

These reductions, made over a 2-year period, would scale down the present range of 20 to 90 percent to a range of 14 to 70 percent and these tax cuts would be of particular help to the owners of approximately 4 million small unincorporated businesses.

Moreover, the reversal of the present 30 percent normal tax rate and the 20 percent surtax rate will provide a tax reduction of \$2,000 for all small business corporations with taxable income of \$25,000 or more. The reversal of corporate normal and surtax rates has been

acknowledged for years as a needed small business tax reform.

Let me turn briefly to another aspect of the problem we face—namely, automation and unemployment.

We cannot hold back the progress represented by automation, but we must take steps to meet the challenges of automation and unemployment—we cannot afford to do nothing.

The President of the National Association of Manufacturers has recently observed that if our economy continues to create jobs no faster than it has since 1957, then by 1970 our unemployment rate would climb to about 13 percent—a level totally unacceptable to the American people.

This bill, everyone agrees, will provide more jobs and employment.

It is also undisputed, I believe, that the passage of the pending measure will stimulate immediately the entire economy of our country, all classes will benefit; individual tax rates would be reduced; purchasing power would be en-

[P. 17013]

hanced; demand for consumer goods would increase; more people will be employed; investments would be encouraged—and business activities in general will be accelerated and expanded.

It is repetitious but nevertheless factual to state that this bill is supported not only by the small business community but by big business—and taxpayers generally.

Henry Ford II, one of our greatest industrialists, as we well know, is head of the President's Tax Study Conference and he strongly urges Congress to act on this legislation.

I cannot understand some of the inconsistent positions of some of the critics of this bill.

In one breath we hear that the tax cut is too big—that we cannot stand this big bill at this time.

In another breath we hear that the bill gives too little relief—that it is “only cigarette” money.

The \$11 billion tax relief over the next 2 years could certainly buy a lot of cigarettes—a lot of all kinds of tobacco as well as food, clothing, and the necessities of life.

More than this, it will provide jobs and employment—as well as business and industrial expansion.

With economic growth, in turn this should mean more taxes, in the long run, for the Federal Treasury and a balanced budget. I am willing to take the chance.

Mr. Chairman, I have been immensely impressed by the report of the Commissioner of the Internal Revenue Service

who has stated that Federal tax collections have recently topped the \$100 billion mark for the first time in the Nation's history.

Total collections amounted to an estimated \$105.9 billion for the fiscal year ending June 30. This was nearly \$6 billion higher than the \$99.4 billion received last year. Receipts were up in nearly every category.

So, Mr. Chairman, we now have Federal income exceeding \$100 billion annually and, according to the summary report on this bill—supported by the testimony of the Secretary of the Treasury—the actual revenue reduction in fiscal year 1964 is expected to be only \$2.2 billion and \$7.4 billion in 1965.

These proposed regulations are without regard to any stimulating effect they may have on the economy.

Taking into account the Treasury Department's estimate of the stimulating effect the bill will have on the economy—revenues will be reduced by only \$1.8 billion in fiscal year 1964 and by \$3.5 billion in fiscal year 1965.

A \$100 billion tax producing economy can certainly afford the tax reductions here proposed.

Concerning the question of reduced Federal spending, you know and I know that the Congress is the body that passes on all Federal spending—all appropriations.

We like to blame the Executive from time to time but, we all know and recognize that it is the Congress that controls the purse strings—the appropriations for the Federal Government.

The Committee on Appropriations is doing a very effective job in cutting appropriations this year.

Chairman CANNON has set as a goal for our Committee on Appropriations a cut of \$5 billion in the President's budget—and, I can tell you that we are well along the road to attaining this objective.

So, Mr. Speaker, we should pass this bill. We should pass it because it is fair and equitable.

We ought to pass this bill because it will stimulate the entire economy—and the country can afford it.

We ought to pass this bill because low income families will receive special relief—it will not be discriminatory relief because all taxpayers will get the same break on that portion of their income.

We ought to pass this bill because it will put extra money in the hands of those who need it most—the housewife, the farmworker, the factory worker.

We ought to pass this bill because it will give new hope for the unemployed for jobs and employment.

We ought to pass this bill because it will give relief to all our people.

And, we ought to pass this bill to provide American small business with the kind of assistance it has long needed—and which is long overdue.

We ought to pass this bill, without amendment, and we ought to pass the bill for the good of our country.

This bill merits the overwhelming support of the House.

Mr. MILLS. Mr. Chairman, I yield 3 minutes to the gentleman from Missouri [Mr. JONES].

(Mr. JONES of Missouri asked and was given permission to revise and extend his remarks.)

Mr. JONES of Missouri. Mr. Chairman, I can state my position on this bill in a very few words. It is the same as it has been since the first of the year when I announced I was opposed to any tax reduction until there had been a reduction in expenditures and an approach to balancing the budget. Like most everyone else, including my constituents, I would like to pay less taxes, but a tax reduction as proposed in this bill does not mean that our tax obligation will be reduced. Nowhere in the President's letter of assurance of a reduced budget do I read where the national debt is to be reduced but, on the other hand, it contemplates an increase in the debt even if the estimated reduction in expenditures is accomplished. The budget would still include a planned deficit, and the tax reduction would still result in an increase in the national debt.

Mr. Chairman, I may be somewhat old fashioned in my views, and it would appear my philosophy is much the same as that of former President Truman who was quoted in the press a few days ago as saying that he believed you should pay in more than you spend, and for that reason said he did not favor a tax cut until we have a balanced budget. The great difference in the former President, President Truman—a man who advocated a balanced budget and recommended tax increases which Congress would not approve—the difference between the former President and myself is that President Truman, a great Democrat, would support his President's program even if it conflicts with his own personal views. On the other hand, I try to vote my convictions, and while I cannot support my President on this issue, neither can I support the Republican-sponsored motion to recommit, because I do not believe it gives the guarantee or assurance it proposes. The responsibility of balancing the budget rests with this Congress, and when we

face up to this responsibility, then we can in good conscience recommend and enact legislation to reduce taxes as we reduce the national debt.

I am reminded of the time only a few years ago when the entire budget was less than the interest on the national debt today. Nowhere are we led to believe that the national debt is going to be reduced, and a tax reduction at this time is merely a postponement of an obligation that is going to have to be paid off at some time. This Congress is not facing up to its fiscal responsibility, in my opinion, when we fail to levy and collect sufficient taxes to meet our current obligations. We can justify deficit spending in times of war, or in other emergencies. We are not in such an emergency at this time and have not been for several years. It is for this reason that I do not expect to vote for any tax bill which will reduce net revenue until Congress has the courage to reduce expenditures and balance the budget. From the correspondence I have had with the constituents I am privileged to represent, and after having stated my position on several occasions during the past several months, I believe I am representing the views of an overwhelming majority of the people of the 10th Missouri District in the position I have taken.

Mr. MILLS. Mr. Chairman, I yield 8 minutes to the distinguished gentleman from Ohio [Mr. VANIK].

Mr. VANIK. Mr. Chairman, like many Members of this body, I regret the rules under which the House must accept or reject the tax bill under a take-it-all or leave-it basis with only one alternative conditioning a tax cut upon a cut back of Federal spending and an arbitrary reduction of Federal services to the public or the quality of the national defense.

Although I intend to support this legislation, I do so with misgivings and grave fear as to the ultimate consequences of what we do. Although my concerns run contra to the analysis and assurances of the President's Council of Economic Advisors, the Joint Economic Committee, and the Secretary of the Treasury, I hope that my fears prove groundless and that my apprehensions will be dissolved by favorable events.

My principal dissent to this legislation is directed to the assault which the legislation makes on the principles of just taxation. It reduces the taxation on wealth considerably more than it reduces taxation on poverty. The tax bill reduces the taxes of a married person with a taxable income of \$4,000 from \$800 to \$680, increasing his disposable income by \$120

[P. 17014]

or 3 percent. The married person in the \$400,000 taxable income bracket enjoys a tax cut of \$90,000 from \$370,000 to \$280,000, increasing the disposable income of such an individual by 300 percent. Which of these two individuals is more likely to put his disposable income into aggressive work or movement in the domestic economy?

The measure of movement of a civilization is measured by many things: Its art, its culture, its economic development, and the laws through which freedom and social justice are achieved. One of the hallmarks of modern civilization can be found in the degree of fairness which is achieved through tax laws which adjust the burdens of society upon its members to the degree of their capacity to contribute. This bill assails this principle, and my fear is that it can develop into a broadscale attack on those remnants of justice which remain in our tax system. My fear is that the new reserves of released capital will be used to propagandize the ultimate erosion of the income tax system and support in substitution a Federal excise or sales tax which would shift a substantial portion of the tax burden upon the great body of citizens who constitute the population base which lives by labor rather than from the income of investment in enterprise.

The reduction of corporate taxation by this legislation will come to \$2.2 billion the first year. When added to the tax reduction provided by Congress last year and the change in depreciation guidelines provide an aggregate tax cut to corporations of \$4.5 billion. With the anticipated growth of the economy in the 10 succeeding years, the effect of this tax cut in a 10-year period will result in tax savings to American corporations which could approximate \$70 billion.

This bonanza of corporate cash flow will create a tremendous buildup of cash, making corporations less dependent on banks and stock issues. This issue was thoroughly discussed in the Wall Street Journal of September 9, 1963, which cited as an example the tremendous securities portfolio of the General Motors Corp. which now totals \$2.3 billion in value and which could multiply several times over because of this bill. Such concentrations of available capital, while useable for research, expansion and development are also available for the accumulation of small business enterprises; thereby accelerating their troublesome attrition.

A publication as conservative as Forbes magazine recently raised concern as to

whether present laws and treasury regulations threaten to provide more corporate cash flow than is needed for expansion and development. While the generation of proper amounts of corporate capital is desirable for worthy expansion and development, the generation of excess corporate capital, accelerated by this bill, could create a power which could become a hazard to small business, competition, and the free enterprise system.

The capital gains tax, already a source of abuse and unfair privilege under existing law, is developed into an even greater loophole under this bill we consider today. The further reduction of capital gains taxation to 21 percent for assets held more than 2 years will indeed generate a shift in the ownership of such assets with a temporary swell in tax revenues from this source. It is conceivable that the stock market may witness 10 million share-days as big security holders, corporate and individual, change around the makeup of their portfolios, paying taxes at a 21-percent rate on profits which have developed on their holdings. The proceeds from such sales will be reinvested in other comparable acquisitions or in the same securities after the expiration of the 30-day wash sale restriction. Although this investment will gyrate and churn, the only jobs of any substance which will be created are those additional people who will be needed in the stock brokerages to shift title in the interchange of security holdings. This bill will create more jobs on Wall Street than on Main Street.

The greater cost of this tax loophole will be the new plateau which will be established for security ownership. This new plateau for reinvestment after taxation will establish a base for the measurement of the taxation of gains in the future as well as a base for determining costly tax loss deductions if the value of these assets should collapse. The loss of revenue to the Federal Treasury in the event of such a casualty is incalculable.

This bill clarifies but does not alter the privilege which some corporate executives enjoy of paying taxes at lower capital gains tax levels for services rendered their corporations. It is grossly unfair to continue the privilege of permitting corporate executives to earn a substantial portion of their wages through capital gains in the exercise of stock options which they receive for services rendered. The injustice of this privilege is even further compounded when these select people are privileged to pay taxes on their earnings for services at the new low capital gains tax of 21 percent.

If we are scaling down the tax system by reducing high-bracket income taxes from 91 to 70 percent, there certainly is no justification for continuing the stock option gimmick which permits those with high income to accumulate a substantial part of their earnings for services rendered through the new low capital gains tax rates.

Along with many of my colleagues, I would have preferred a tax bill which would close the capital gains loophole, the depletion allowance and the stock option loopholes and then provide an increase in the dependency exemption from \$600 to a more realistic allowance of \$1,000 per dependent. In addition, I would have preferred a tuition deduction for those taxpayers who are assuming the additional high cost of adequate education for their dependents. Under our procedures, these tax modifications cannot be considered.

Under the rule which I have today opposed, we do not have the opportunity to improve this legislation. This is regrettable. The Members of this House should at least have an opportunity to vote to accept or reject each section of this bill and let this body work its will. The closed rule brings about a forced feeding of legislation which gives the legislator the choice of total acceptance or total rejection. In voting for this legislation, we are compelled to take the bitter provisions along with the sweet.

I hope that this tax bill provides more than an Indian Summer of growth and prosperity. I hope that my fears prove groundless and that our economy will enjoy good health and prosperity for the long term.

Mr. BOLAND. Mr. Chairman, I rise in favor of H.R. 8363, providing for cuts in individual and corporate income tax rates and making structural changes in the tax law. The President's program of tax reform is designed to increase the strength and vigor of our economy, remove certain inequities from our tax structure and promote tax simplification. The bill provides a \$11.1 billion tax cut over a 2-year period, 1964-65.

In testimony before the Ways and Means Committee, Secretary of the Treasury Douglas Dillon said that the primary objective of this legislation is to release our economy from the shackles of an overly repressive income tax rate structure so that it can move ahead to full capacity utilization of its human and physical resources and avoid the recurring recessions that have characterized the postwar years.

The Ways and Means Committee majority views report states that 5.5 million new jobs would have to be created to

achieve full employment between now and 1966, in addition to providing the jobs necessary to reemploy those displaced by automation or changing markets. Maintaining the 3-percent rate of growth as the United States has done since 1956, not only will fail to eliminate the present excessive unemployment, but unemployment will continue to rise as the increasing number of children born during World War II and early postwar years reach employment age. The faster rate of growth which this tax cut bill will provide must play a key role in meeting this problem, the committee majority states.

During recent years, and increasingly so since 1957, two prime economic facts have become increasingly more generally recognized as serious threats to our future economic health. One is that our economic progress has been far less than satisfactory. Second, the Federal tax structure has seriously frustrated our attempts to achieve a stronger economy.

Since 1957 we have had two recessions. Unemployment has ranged between 5 and 7 percent. Our plant facilities have been operating at rates far less than full capacity. The balance-of-payments problem is a continuing worry. The Federal budget has showed sizable deficits in 4 out of the last 5 fiscal years.

The weaknesses in our ability to utilize adequately our plant facilities and to maintain a satisfactory level of employment have cost us billions of dollars in the production of American goods and services. While the precise measurement of this loss may be subject to some criticism, we can certainly say without hesi-

[P. 17015]

tation that it is costing the Nation at least \$30 billion annually.

The tax reductions that we are considering today will give American consumers billions of dollars of additional purchasing power. These consumers are not going to hoard these funds. We can positively forecast on the basis of past performances that well over 90 percent of this additional tax-free income will be spent. This income will be respent by businesses in the form of additional wages to employees, building up larger inventories, and purchase of new and more modern equipment. Further consumer spending will result from the expanded payrolls. Thus, the total rise in consumer spending and business investment will be at least two or three times the original amount of the tax saving to consumers.

Businesses will also gain directly from the tax rate reductions provided in the bill. This will foster a new incentive and

greater financial capacity to invest and to employ.

Competition by American firms in the world markets will be fortified by tax reductions. The attractiveness to foreigners to invest in our country will be enhanced. As a result we can expect a reversal of the current trend of an unfavorable balance of payments.

If we are going to achieve an economic society that will be strong both domestically and throughout the world, we must remove the retarding influences generated by our present Federal tax structure. Such achievement can be accomplished by voting for the tax bill that is pending before us.

Mr. Chairman, I hope that the Byrnes motion to recommit this bill will be rejected when it is offered by the gentleman from Wisconsin. It will provide that the tax cuts scheduled to take effect on January 1, 1964 and January 1, 1965, be canceled if the President's budget estimates Federal expenditures above \$97 billion for fiscal 1964 or above \$98 billion for fiscal 1965. President Kennedy, Speaker McCormack, and Chairman Mills, of the Ways and Means Committee, have all denounced this arbitrary, restrictive and unnecessarily partisan move that would endanger chances for a tax cut and the corresponding stimulus it will provide to our economy. I ask permission at this time to include with my remarks two editorials favoring the tax cut bill but speaking out against the Byrnes amendment, taken from the Springfield (Mass.) Union of September 18 and the Denver Post of September 22:

[From the Springfield Union, Sept. 18, 1963]

TAX CUT BILL ON THE MOVE

The \$11 billion Federal income tax cut bill has cleared the House Ways and Means Committee and is expected to come up for a House vote later in the month. Whether or not it achieves enactment in time to become effective next January will depend largely on whether it gets jammed up behind a civil rights filibuster in the Senate. Anticipation of the cut appears to be stimulating the economy already. But there are some areas in which the fact of the tax cut, not merely the promise, seems to be needed.

The stock market has responded to progress of the bill, according to a wire service report, climbing last week to another new high. The Dow-Jones average of 30 industrial issues reached a new high level for the second time within a week. Retail sales in August were 6 percent ahead of the same month a year ago, and department stores over the Nation looked for a 5-percent gain for the rest of the year. A high demand for paperboard boxes jibed with a Commerce Department report that manufacturers expect increasing sales. Production of automobiles and steel continued to post gains. So bright

are the prospects, in fact, that some observers wonder if the chances for passage of the bill are not reduced accordingly.

Aside from the fact that increasing business income means increasing tax revenue, Congress will have two very good reasons for following through with the tax cut legislation. One is that unemployment is higher today than it was a year ago, even with the advances in business and industry. The economy cannot reach its full potential as long as it is dogged by high unemployment. Some of this is inevitable in a time of transition to automation, when new skills have to be developed. Some of it is avoidable. The President has announced, for instance, that the administration's emergency program to arrest the school dropout trend has prompted some 10,000 students to continue with their schooling. Many of the jobless, meanwhile, could be absorbed by the business activity that tax cut enactment would encourage.

Another good reason for such legislation is the balance-of-payments problem—the need to keep investment capital from leaving this country and to keep the dollar sound. Clearing the way for reductions in certain discount rates by banks of the Federal Reserve System is one step that has been taken by the administration. But it is necessary also to justify investment on the basis of market prospects, and this is where the tax cut legislation comes in.

Chairman WILBUR D. MILLS, Democrat, of Arkansas, of the House Ways and Means Committee, in answer to demands that a mandatory spending limit be made part of a tax cut bill, has asserted that Congress would reject heavy spending as a way of boosting the economy if it passes the tax cut bill. He cited a declaration to that effect inserted in the committee's version of the bill. So far, business and industry seem to be moving ahead with confidence in the measure as it stands. Certainly it should not be defeated for the want of controls dictated by politics more than by economic considerations.

[From the Denver Post, Sept. 22, 1963]

GOP MAKES MISTAKE TO FIGHT TAX CUT

We are amazed by reports from Washington that House Republicans have decided to make a major partisan fight against the proposed Federal income tax cut.

In theory, the Republican fight is not against the tax cut itself. But the Republican effort to attach a deficit-limiting cancellation clause to the tax cut bill will in fact destroy most of the stimulating effect of the tax cut and could wipe it out entirely.

What the Republicans want to do, specifically, is to attach a rider to the bill canceling the cut unless Federal spending is held to \$97 billion this year and \$98 billion next year. Otherwise, says Representative JOHN W. BYRNES, Republican, of Wisconsin, spokesman for the House Republicans, deficits expected with the \$11 billion tax cut in the next 2 years could lead to inflation and financial ruin.

This is politically inspired nonsense. If the Republicans persist in it, and should suc-

ceed in their fight, it is they, not President Kennedy, who will have the albatross of fiscal irresponsibility hanging around their collective neck in 1964. They will be the ones who will have stifled the effort to get some of the burden of the Federal tax off the economy.

President Kennedy made a powerful and logical case for the tax cut last week, and now the Republicans have replied. Their reply is not impressive.

To get a nonpolitical view of the facts, let us look at what a group of responsible businessmen say:

"The deficits in recent years have, in large part, been the product of the failure of our economy to achieve its full potential because of the burden of oppressive individual and corporate tax rates. If unemployment is to be reduced, if idle plant is to be put into production, and if we are to achieve meaningful long-term economic growth, individual and corporate rates must be reduced.

"We recognize that tax reduction in the magnitude contemplated * * * will add temporarily to an otherwise existing deficit. However, we believe that additional income flowing from the tax cut will bring the budget into * * * balance significantly sooner than if there were no tax cut at all. * * *

"We commend these Members of Congress for their concern and urge them to do everything possible to assure expenditure control. We also sincerely urge them to reconsider their position and to work aggressively for the passage of a tax reduction as soon as possible."

Who are these businessmen? They are members of a committee headed by Henry Ford, II, chairman of the Ford Motor Co., and Stuart Saunders, president of the Norfolk & Western Railway—the most consistent moneymaker among American railroads.

Other members include financiers such as Frazar Wilde, chairman of the Connecticut General Life Insurance Co.; David Rockefeller, president of the Chase Manhattan Bank, and Robert C. Baker, chairman of the American Security & Trust Co., in Washington.

It is quite doubtful that there's a Democrat in the lot. And it's quite certain that men of this caliber are not advocating anything that will lead the Nation to "financial ruin." Since even Congressman BYRNES himself agreed that President Kennedy was "dead right" in saying a tax cut is urgently needed, there is no sound reason for playing politics with it. There is not even a sound political reason for doing so—considering that the effect would rebound on the Republicans.

This tax cut should be passed. It should be passed soon. And it should be passed without any uncertainty creating "ifs" or "buts."

Mr. MILLS. Mr. Chairman, I move that the Committee do now rise.

The motion was agreed to.

Accordingly, the Committee rose; and the Speaker pro tempore (Mr. ALBERT), having resumed the chair, Mr. ROOSEVELT, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having

had under consideration the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes, had come to no resolution thereon.

[P. 17017]

TAX REDUCTION

(Mr. ALGER (at the request of Mr. BROMWELL) was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. ALGER. Mr. Speaker, in view of the importance of our tax deliberations,

[P. 17018]

and the excellence of this statement of the gentleman from Wisconsin [Mr. BYRNES], a real student of tax law, I am pleased to insert these views in the RECORD. I know our colleagues will find these remarks of real value, as presented on TV in answer to President Kennedy:

We in America have a precious right. It is freely to take issue with anyone—even the President of the United States.

That is why I am here tonight. I am exercising that right, for myself and many others, to disagree publicly, even with our own President.

I say this with great respect for his high office and with appreciation of his heavy responsibilities. But, as he himself has said, "Without debate, without criticism, no administration and no country can succeed—and no Republic survive."

It is in that spirit that I take issue with the President's demand, night before last, for passage of the tax cut bill now before Congress.

I listened carefully to what he said, as I am sure you did.

He was dead right when he pointed out the urgent need for a reduction in our taxes. That our taxes are too high; that they should be cut, is obvious to everyone of us. I would not go quite as far as the President did, however, in suggesting that a tax cut will solve most of our national problems and, at the same time, will put a new car in every garage and a new dishwasher in every kitchen.

But, I certainly do agree, as doubtless you do, with what the President mainly said—that we need badly to reduce the taxes you have to pay and the taxes that business has to pay.

The President said many other things with which all of us can agree.

What, then, is the disagreement with the President that prompts my visiting with you tonight? Why not do just as he said? Why not cut taxes right now? Then, as the President also said, we'll all be richer, we'll all be happier, business will boom, unemployment will disappear, and even worrisome things like juvenile delinquency will go away.

The answer is, neither life—nor taxes—are that simple. Our disagreement is not so much with what the President did say as with what he did not say.

Desirable as it is to cut taxes, we cannot talk about it responsibly unless we first consider the close relationship between taxes, spending, and debt. This the President did not do.

Yet you and I know we cannot just toss old-fashioned arithmetic and commonsense overboard.

There, in your home, on your job, in your business, you know that day after day you have to keep a close check on how much you earn, how much you spend, and how much you owe. It is certainly not news to you that you can't spend more, take in less, and pay off your bills and mortgage—all at the same time. It is no different in Government. If we don't recognize that simple truth, the whole Nation is in for financial disaster.

Let's think back for a moment to the two major tax cuts we have had in recent times. We need to remember that we cut taxes each time only after very careful consideration was given to both spending and debt.

A Republican Congress in 1948 gave us a large tax cut in spite of three vetoes by a Democratic President. But, first of all, before taxes were cut, Government spending was sharply reduced and a surplus achieved. As a result, in addition to cutting taxes, we were able to cut the public debt by \$7 billion.

Then came the largest 1-year tax cut in our history. This was passed in 1954 in President Eisenhower's administration and again, by a Republican Congress. But, once more, taxes were cut only after a tremendous cut in costs. To set the stage for this \$7½-billion tax cut, we first cut spending by \$10 billion.

It is interesting to note here, that President Kennedy was against the 1948 tax cut when he was a Member of the House of Representatives. In the final showdown he also was against the 1954 tax cut when he was a Member of the U.S. Senate.

I am sure the President himself will gladly explain at a later time why his position has changed since those votes. But the position of those of us who supported those cuts can be made crystal clear right now.

We believed in tax reduction then, as we do now. We believed then, as now, that it is sound to keep the people's money where it belongs in a free economy—in the hands of the folks back home who, as consumers, as workers, as investors, are the real creators of our Nation's wealth and prosperity.

But, very importantly, we believed this, too—that a tax cut can be justified, can be really meaningful, can be safe for the Nation, and can endure, only when tied to a firm control over spending.

If the conditions of 1948 and 1954 prevailed today, if our President and Congress were for sensible restraints on Federal spending, today there would be no issue—today there would be no controversy—over passing this tax reduction.

But, you know, as I know, that these conditions of prudence and commonsense just do not exist today. Because they do not, our

fiscal problems now are entirely different. They endanger every citizen.

In each of the past 3 years, the President and his majority in Congress have joined forces to produce an astounding growth of spending. Listen to this incredible history:

In 1962, spending went up over the previous year by \$6 billion. In 1963, \$5 billion more. This year, another \$5½ billion. Next year, spending is expected to go \$4 billion more. That adds up to \$20 billion of increased spending in just 4 years.

Meanwhile, what happened to the public debt? In fiscal year 1962, the debt went up \$9 billion. In 1963, up another \$8 billion. This year, we expect \$9 billion more. Next year, up another \$9 billion. That comes to \$35 billion more of debt in just 4 years. Merely the interest on this increase will come to a billion dollars a year.

Now, of course, there are those who try to make light of this skyrocketing spending and soaring debt. We all know people who try to do the same thing with their family budgets. Back home, we call it "spending yourself rich."

But, for a great nation, these spending and debt figures paint a frightening picture. It is a picture of a nation chronically in debt—a nation unable to discipline its spendthrift ways—a nation which month by month and year by year edges ever closer to financial ruin.

It is a prospect that menaces every American who looks to a good future for himself and his family. It is a prospect that threatens the future of freedom both here in America and across the seas.

Try as we may—try as the President may—neither he, nor you, nor I can divorce our runaway spending and our mounting debt from his appeal for an immediate \$11 billion tax cut.

Even the Kennedy administration admits that if we cut taxes under present conditions, we will start off by going in the red over \$9 billion in each of the next 2 years. That's only part of the story. The truth is, this administration is taking an unprecedented gamble with the entire economic system of the United States.

They are making a bet that this tax cut will give us a noninflationary, continuing economic growth at a rate far beyond any we have ever before achieved. If this long shot does not come through, what surely lies ahead is an unending parade of huge deficits.

Some experts tell us that in only 5 years this added debt will come to \$50 billion. Others say the debt will have gone up \$75 or \$100 billion before the budget is balanced.

Such huge persisting deficits are, unavoidably, a recipe for exploding inflation. They have to be paid for. There are only two ways to do it. Either we borrow the money back from the people—which means, of course, taking out of our economy as much as a tax cut would put in—or else, we must pay for the deficits with cheap money—which means money conjured up by selling bonds to our commercial banks or the central bank.

The economists all agree on this one thing:

If we go on an inflationary binge, at a

time when both our national budget and our balance of payments are in their present difficulty, the likely result is disaster. Inflation means higher prices. Runaway inflation means runaway prices. It hurts those among us who need our help the most. It attacks the unemployed, the low wage earners, those on fixed incomes, the retired workers, and widows. It tramples the helpless and steals from the poor. And then, everyone suffers when at last the boom ends, as it must, in collapse.

Make no mistake—the high prices brought on by ever mounting deficits will not create stable jobs. As prices rise, they reduce our exports; they encourage imports; they worsen our balance of payments; they invite a run on our gold. All of this threatens confidence in the dollar at home and abroad, leading to the risk of bringing on a worldwide depression.

As we confront these problems, we cannot ignore the warnings of distinguished men who have faced similar problems in the past.

Only 2 weeks ago, our last two Presidents, General Eisenhower and Mr. Truman, told us not to cut taxes unless Government spending is first brought to heel.

Only last week, former Secretaries of the Treasury, George Humphrey and Robert Anderson, gave us similar warnings.

A former economic adviser to the President, Dr. Arthur Burns, has told us this: We cannot have "a protracted and substantial increase in the Federal debt without exposing our currency, and with it our economy and international political prestige, to a very grave risk."

If, in our eagerness for a tax cut, we ignore such wise and distinguished counsel, we will be playing Russian roulette with our destiny.

To be sure, the President promised, as he put it, "an ever tighter rein on Federal expenditures." He also said that "spending will be controlled and our deficit reduced." The tax bill itself contains a statement that spending must be controlled.

It is good to hear and read such encouraging words. But in view of the immense importance of this issue to each one of our 190 million Americans, I say that far more than mere words is necessary. For America's sake, we need far more than a hope and more than a wish.

Time and time again, ever since 1960, there have been promises to control Federal spending. But each year the spending has gone up over \$5 billion.

Yes, there are promises of lower spending. But let's not overlook the other promises. There are many promises to increase spending. There are promises of brand-new and costly programs. These promises of new programs were even repeated during the President's speech, on the very heels of professions of frugality.

[P. 17019]

It is time to judge the administration by what it does, more than by what it says.

A promise to control spending becomes meaningless when the President continues to submit requests for new programs which cannot be reconciled with even his own rule

of essentiality. I refer to programs such as those which put the Government in the business of building ski slopes and golf courses. There are many more. The President referred to them as "all the rest."

Pledges to put a brake on spending become sheer mockery when, every time the Congress tries to trim a budget, the whole administration rushes in to put the dollars back. It was only the other day that the President himself bitterly criticized everyone who tried to keep spending under a "tight rein" by voting a long-overdue cut in foreign aid.

No—mere words are not enough. What we need is a firm, unbreakable commitment. We need to be certain that promises to control spending come first. We want these promises to spend to come second.

That is all we ask. We ask it on behalf of the American people. We simply ask that Congress make this tax cut contingent upon fulfillment of the promise to control spending.

Next Wednesday I will offer an amendment to the tax bill in the House of Representatives. If it is adopted, we will have that commitment.

The amendment is very simple and easy to understand. It merely commits us firmly and clearly to control of spending before we cut taxes.

It will not delay the tax bill a single day. It will not change the size or the nature of the tax cut.

The amendment will let the tax cut go into effect next January, exactly as now planned—but only if the President officially pronounces that the level of spending this year will not go above \$97 billion, and only if he officially pronounces a level of spending for next year of not more than \$98 billion.

Neither will the amendment work a hardship on the President and his helpers. It will not even limit spending to present levels. While a \$97 billion ceiling for this year is a billion dollars less than the spenders would like to spend, it still allows \$4 billion more than last year. And, the \$98 billion ceiling for next year allows \$1 billion more than that.

Even a reasonably prudent administration, with a Congress pledged to spending control, ought to be able to exercise the discipline required to meet those comfortable limitations. There should be no trouble at all in meeting national needs that are really essential.

Here then, is the key to this much needed tax cut—the key to a sensible, permanent, productive tax cut—the real key to dependable economic growth. That key is a willingness on the part of Congress and the President to make a commitment of fiscal responsibility to each other and to the American people.

I assure you that Republicans in Congress are eager to make that commitment. If the President will only join in this endeavor to halt, once and for all, our spiraling debt, if only the President will support this amendment to restore spending control, I am sure his majority party in Congress will gladly follow his lead. Then, we could speedily put this tax bill on the statute books, reassured that we have acted soundly, courageously, and responsibly.

Ladies and gentlemen, we can't go on deluding ourselves.

There is only one reason that we must have these high taxes. It is high spending. We have at last a clear opportunity to tie it down. Once this is done, this tax cut can be passed with both prudence and confidence for the future. And then, if we can only stay responsible, future cuts will be a certainty as our economy expands.

This is the honest way—the meaningful way—the responsible way—to put more dollars in your pay envelopes, to encourage investment and expansion, to create new jobs. This is the only way we can keep this Nation strong and prosperous, and keep America free.

So believing—and believing deeply that these views I have expressed are your views as well—I ask you to let your voice be heard before next Tuesday and Wednesday when we will wage this battle for you, for your children, and for our country.

[P. 17020]

Mr. GONZALEZ. Mr. Speaker, this week we are to deliberate over the Revenue Act of 1963, H.R. 8363, which was recently reported to the floor of this House by the Committee on Ways and Means. As everyone knows, the bill, which amends the Internal Revenue Code of 1954, also substantially reduces individual and corporate income taxes.

Unfortunately, the issue of tax reduction has become involved in party politics. This seems clear from the tone and temper of the dissenting opinions to the committee report of the tax bill. It should be noted that these opinions are not labeled "Minority Report." They are labeled "Separate Views of Republicans on H.R. 8363."

But we are fortunate to have the "Separate Views of Republicans" in one respect. It pinpoints the differences in views of those who favor tax reduction and those who oppose it.

For example, it is stated on page c10 of the "Separate Views of Republicans":

Public debt is nonproductive, as compared with private debt.

Let us examine this statement.

First, it is implicit in this statement that private debt is productive. This of course is true, and it is heartening that the separate Republicans who have presented us with their "Separate Views" have the insight to grasp this concept and the courage to present it to this House. To illustrate this, when an individual or a group of individuals borrow money from a bank or other private lending institution, or from the Federal Government, to build an office building, or an apartment house, or a factory, or to purchase land, or livestock or for other agricultural purposes, or to construct an

electrical powerline, or to improve or repair a home or business it is clear that such loans will be productive if the investments are sound ones. If it takes a loan of \$100,000 to build a factory that will employ a number of persons, and produce an item for public consumption and that will earn a profit for the owner then obviously the debt is a productive one. I congratulate those separate Republicans for their comprehension of this principle of economics.

Let us now discuss the fact that our Federal Government through a number of programs makes commercial, industrial, financial, agricultural, housing and community development and other loans to qualified individuals and groups of individuals. It costs money to maintain these programs, appropriations, expenditures. That is to say, the costs of these programs constitute part of the public debt. But that part of the debt is obviously productive. Perhaps we can discuss this aspect of the problem more fully at a later time.

Let us instead get to the heart of the problem and try and see whether or not the other portions of the public debt are productive. For what does Congress appropriate funds? For the national defense, for Federal construction programs, for public education, and for other forms of public welfare. Are we to believe that the part of the debt that goes into the defense program, which guarantees the security of the Nation, is nonproductive? If so, then these separate Republicans should advocate that we do away with the defense program. Are we to believe that the highway system being built with Federal moneys are wasteful and nonproductive? Then these separate Republicans should convince the trucking firms, the thousands of businesses which depend on public roads for the transport of their goods and services and the millions of automobile owners who use the highways to do away with this program because the debt that is used to finance it is not productive. Are we to believe that the construction of schools, the school lunch program, the student loans, and educational grants for research which are financed with Federal money are a drain on the economy. Then let these separate Republicans ask the millions of students and their parents, and the members of the communities over the Nation that have benefited from scientific research, trained doctors, engineers, and educators, and all the rest that education has helped, to vote for the abolition of these programs.

We can give a great number of examples to show how Federal expenditures

and the public debt benefit the people. The point is that the argument of the separate Republicans is specious and it is no answer to the tax program that has been reported. It is a good program and the people need it. We need the tax reductions provided in this bill. It is about time the people got a break from the taxes which always seem to go up.

[P. 17023]

THE TAX REDUCTION BILL

The SPEAKER pro tempore. Under previous order of the House, the gentleman from Washington [Mr. PELLY] is recognized for 20 minutes.

Mr. PELLY. Mr. Speaker, as a Republican Member of the House I cannot resist chiding my good Democratic friends that consideration of a tax reduction bill by a Democratic Congress, as is the situation today, is a rare and historic occasion. Only once in 50 years have the Democrats adopted a tax reduction program whereas under Republican Congress there have been tax reductions on nine separate occasions. But I hasten to add that tax reductions, regardless of political party or who is in power, are too important to be subject to partisan remarks. Many times I have pointed out during debate on tax measures that when a government takes more than half of the income of an individual or of a business through taxation that individual or business is more than half socialized. Furthermore, I am familiar with the history of income taxes and I wish I had the time today to cover this entire subject starting with the year 1799 with the first written income tax in England, which was quickly repealed, with its elimination celebrated by bonfires all over England where this system, so hateful to a free people, was abhorred. I believe income taxes are still abhorred.

However, I will resist going into detail as far as the past is concerned except in passing to point up that the progressive income tax was the key to socialism as proposed in 1846 by Karl Marx and Frederick Engels and in considering income rates let us not overlook that. Meanwhile, coming to more modern times let me recall that it was Cordell Hull, then a Representative in Congress from Tennessee, a bit overoptimistically who said this:

With the income tax a permanent part of our fiscal system Congress can readily prevent a deficit or reduce a surplus in the Treasury without disturbing business by the simple lowering or raising of the income tax rates.

Obviously he was wrong and that is why we have a controversy today. All of

which causes me to refer to modern history and the 1948 and 1954 Republican tax cuts.

As the minority views on this year's tax bill point out in 1948 a budget surplus was projected which the Republicans proposed to apply about 50 percent to reduction of the public debt and about 50 percent toward cutting the heavy war-time tax rates. The 1948 act actually provided a \$7.1 billion tax cut in fiscal 1949 and allowed in excess of \$7 billion to reduce the public debt.

Again in 1954, the Eisenhower administration made substantial efforts to reduce Government expenditures, as pointed out in the same minority views on H.R. 8363 and in turn reduced taxes by \$7.4 billion. A cut of \$9.7 billion in Federal spending allowed the largest tax cut in history and led to a budget surplus for fiscal 1956 and 1957.

Mr. Speaker, the other day I asked a Republican member of the House Committee on Ways and Means, the gentleman from Missouri [Mr. CURTIS] why Republicans on the committee in 1963 were not planning to offer the same treatment in a motion to recommit that had been given them in 1948 and 1954, namely, a politically expedient increase in personal exemption. The answer I got was that Republicans are expected to be fiscally responsible. He said the Republicans are doing what they believe is best for the economy and the country.

But here is the point I want to make. President Kennedy is making a great pitch for bipartisan support for his high priority tax reduction program. However, in 1948 when Mr. Kennedy was a Member of the House did he support our Republican tax bill? No, he did not. He voted for the Democratic motion to recommit. When that motion was beaten, Representative Kennedy, on final passage, voted no.

And, Mr. Speaker, how did the present chairman of the Committee on Ways and Means [Mr. MILLS] vote? And how about the present Speaker of the House? And how about the majority leader? And how about the present Democratic whip? Mr. McCORMACK, Mr. ALBERT, and Mr. BOGGS in addition to Mr. MILLS all voted for the motion to recommit and voted against the bill on final passage.

Then on the Republican tax reduction bill in 1954 did the Democrat leadership support tax reduction? Again, as in 1948, the present Speaker voted against the Republican bill; also the present majority leader voted against the Republican bill; also the present Democratic whip voted against the Republican bill as did the present chairman of the Ways and Means Committee.

I do not say those Members of the Democratic leadership were voting on a partisan basis. I say, however, the record has the appearance that that leadership had a minimum of interest in cooperating with the Republicans. But I am sure each individual I have mentioned voted his own personal conscience.

However, let me frankly support President Kennedy and members of his party as to the desirability of a tax cut; I think both parties agree there is great need for a tax cut today. I think moreover the majority of both parties feel to cut taxes we must cut expenditures. However, the Democrats are satisfied with a statement in the bill to the effect that "it is the sense of Congress" that tax revenue produced by the stimulation of the economy as a result of tax reduction first should be used to eliminate budget deficits and then to reduce the national debt. Also the statement says that Congress accepts the responsibility for restraining spending. The Republicans and many Democrats, I am sure, feel that statement does not go far enough.

The President, Mr. Speaker, has pledged to achieve a balanced Federal budget in a balanced full employment economy and to tighten the rein on Federal expenditures, limiting expenditures to national need.

But frankly, I am not happy about that commitment. It leaves the door open on expenditures. It is wide open and I shall support placing a safeguard clause in the bill putting teeth in the promise to hold down spending because I believe fiscal balance is even more important than tax reduction.

Planned deficits and continued Government deficit spending, Mr. Speaker, will only stimulate the economy temporarily and then like all stimulants this medicine will have to be taken in increased doses. When the effect wears off the Nation will end up where it was, only owing more money and with the cost of living up.

I have said a small tax saving to a low-income worker, as in this bill, is a fraud if the deficit caused by the tax cut results in more inflation and a higher cost of living. I have grave doubts as to the New Frontier actually calling a halt to new spending programs or its willingness to curtail existing expenditures.

So to make my position clear let me say I certainly favor a tax cut if accompanied by a reduction in Federal expenditures.

[P. 17024]

Second, I distrust a pious statement of good intention about reducing spending and will not vote for the bill unless some sort of ceiling on expenditures is in-

cluded whereby the bill would be inoperative unless Federal spending estimates of the President give reasonable assurance that his expenditures for fiscal years 1964 and 1965 will not exceed \$97 billion and \$93 billion respectively.

Third, let me say I have no intention of voting on a partisan basis or in any way motivated except as my best judgment dictates is in the interest of a sound economy and fiscal responsibility.

Because of the presence in the White House of ADA Keynesian advisers I doubt if the President will be advised to curtail spending to the figures I mentioned. But let me emphasize tax reduction can and has in the past stimulated business and resulted in little or no loss of income to the Treasury over a period of time. Indeed, given time a tax cut can result in increased income to the Government. So with a safeguard on spending I support this bill. It has many good features. I think these good features outweigh the bill's defects.

So, Mr. Speaker, let me conclude and repeat as so often I have said in the well of this House I am for tax reduction provided this administration stops spending money it does not have for things it does not need. But with a brake on spending I will vote for it. I believe my position is in the interest of sound Government and sane economy.

Finally, let me say one of the news services recently carried a report saying House Democrats, or some of them, had held a meeting—the Members wanted some way of limiting Federal expenditures that was different than the original Republican proposal.

Well, that would be fine with me. There should be no controversy over the authorship. Let the House write into the law a specific formula to limit Federal expenditures. That is what is needed—a bipartisan formula to assure that there will be no tax reduction without a comparable cut in spending. Therein lies the basis of a sensible compromise. But I do not trust a pious wish—especially one counting on economy in an election year.

[September 25, 1963]

[P. 17122]

DISPENSING WITH READING OF H.R. 8363

Mr. MILLS. Mr. Speaker, in view of the size of the bill, H.R. 8363, and the cost involved, I ask unanimous consent that the printing of that bill in the RECORD be dispensed with.

Mr. BYRNES of Wisconsin. Mr.

Speaker, I think that is an appropriate request and I join in it.

The SPEAKER. Is there objection to the request of the gentleman from Wisconsin?

There was no objection.

CALL OF THE HOUSE

Mr. VAN PELT. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. MILLS. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 153]

Avery	Gubser	Ryan, N.Y.
Blatnik	Hébert	St. Onge
Cameron	Hosmer	Shelley
Celler	Long, La.	Staebler
Davis, Tenn.	Mailliard	Whitener
Dawson	O'Brien, Ill.	Willis
Diggs	Pilcher	Wright
Edwards	Powell	
Gray	Quillen	

The SPEAKER. On this rollcall 406 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

AMENDING INTERNAL REVENUE CODE OF 1954 TO REDUCE INDIVIDUAL AND CORPORATE INCOME TAXES AND TO MAKE CERTAIN STRUCTURAL CHANGES WITH RE- SPECT TO INCOME TAX

Mr. MILLS. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill (H.R. 8363) to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

The motion was agreed to.

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the further consideration of the bill H.R. 8363, with Mr. ROOSEVELT in the chair.

IN THE COMMITTEE OF THE WHOLE

The Clerk read the title of the bill.

The CHAIRMAN. When the Committee rose yesterday the gentleman from Arkansas [Mr. MILLS] had 2 hours and 20 minutes remaining. The gentleman from Wisconsin [Mr. BYRNES] had 2 hours and 20 minutes remaining.

The Chair recognizes the gentleman from Arkansas.

Mr. MILLS. Mr. Chairman, I yield 20 minutes to the gentleman from Louisiana [Mr. Boggs].

Mr. BOGGS. Mr. Chairman, on yesterday the distinguished chairman of the Committee on Ways and Means, my colleague from Arkansas [Mr. MILLS] in outlining the complexion of this bill, in my judgment was very modest in categorizing his own role in putting together this significant piece of legislation, as well as the role played by the members of the Committee on Ways and Means generally.

The chairman of the committee and the other members of this committee listened to more than 200 witnesses in public hearings and compiled a total of more than 4,000 pages of testimony. After the public hearings had been concluded the committee sat for at least 2 months, if not longer, in long, hard, arduous executive sessions.

There were many people who contributed to this bill. The gentleman from Wisconsin [Mr. BYRNES], the distinguished ranking minority member of the committee, in my judgment made a tremendous contribution to this bill. I should like to compliment the gentleman from Wisconsin on the work that he does on the Committee on Ways and Means. He is diligent in attendance; he is diligent in the examination of witnesses. He examines each proposition carefully and thoroughly. I would say the same applies to the other members on his side of the aisle.

Mr. Chairman, I was particularly glad to see the significant contribution to this bill made by my good friend, the gentleman from Florida, a gentleman whom we all admire [Mr. HERLONG]; and also a newer member of the committee, the gentleman from the great State of Kentucky [Mr. WATTS]. The gentleman from Florida [Mr. HERLONG], over the years, has interested himself in orderly tax reduction. The gentleman has studied this matter. He understands the bill—he wrote many of the important provisions in the bill. I am happy indeed that he supports the committee action and opposes the Republican motion to recommit.

Mr. Chairman, the gentleman from Kentucky [Mr. WATTS], although, as I said a moment ago a relatively new member of the committee, also attended practically every executive session, if not every public session, and made many contributions to this bill.

Mr. Chairman, the gentleman from Tennessee [Mr. BAKER] on the Republican side is the author of several sections of this bill, one of them having to

[P. 17123]

do with the capital gains treatment of income derived from the sale of homes by people after they reach the age of 65. Another one being the reform, or revenue pickup measure, having to do with the treatment of certain State and local taxes. So, Mr. Chairman, the point I try to make is that this bill is not the creature of any one person. It is not the product exclusively of this administration. It certainly does not bear the philosophical imprint of any single individual.

Now, Mr. Chairman, with this introduction, I would like to deal, if I may, with the two arguments that are being made against the enactment of the bill by the minority members of the committee.

Mr. Chairman, my good friend, the gentleman from Wisconsin [Mr. BYRNES], in a nationwide television broadcast, in answer to the President of the United States, rested his case pretty largely I think—and if I misstate it I hope he will correct me—on the theory that this bill, unless his amendment or his motion to recommit were adopted, would generate the engines of inflation and we would be confronted with economic disaster in our country. Therefore, he proposed the adoption of his amendment and without the adoption of his amendment, the defeat of the bill.

Mr. Chairman, the other speech in answer to the President of the United States was made by the gentleman from Missouri [Mr. CURTIS], wherein the contention was made that this bill is not really the product of the Committee on Ways and Means; that it is the product of Dr. Heller, the Chairman of the Board of Economic Advisers, and that its actual philosophical impact is to move along the road of constant deficits, more spending, and less taxes regardless of more spending. One argument then was inflation. The other was debt.

Now, Mr. Chairman, if I may, I would like as best I can to examine both of these propositions. First, the question of inflation. We in our country, fortunately, have never experienced the type of runaway inflation that some other nations have experienced. Germany, for instance, following the conclusion of World War I had a classic inflation. Other countries have had similar inflation. Apparently, there is a serious inflationary trend now in France.

In the United States, despite two world wars and despite the Korean war, we have never had a comparable inflationary situation. Now, this does not mean that we have not had an advance in prices, because we have. I suppose it is

safe to say that comparing the 1963 price structure with the 1941 price structure we have had an increase of 100 percent, or more. But in the past few years, as a matter of fact if we want to go back since 1958, the last 2 years of President Eisenhower's administration and the first 2 years of President Kennedy's administration, there has been practically no increase in wholesale prices. In 1958 that index, if my memory serves me correctly, stood at 100.4 percent. At the end of July 1963, or just a few weeks ago, that same index stood at 100.5 percent, or practically no increase whatsoever.

Along the other broad front, namely, cost of living, since 1958 there has been a slight increase, but it has been relatively small.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. BOGGS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. I would like to ask the gentleman if he will say what has happened to the Consumer Price Index? There are not many people who buy wholesale.

Mr. BOGGS. I am glad the gentleman put it that way. As the gentleman was asking me to yield, I was speaking about that very subject, namely, that the costs of food, rent, services, the things that the consumer buys, have also held very stable. That does not mean there have not been some increases, because there have been. But again I say that the relative increase has been, compared to inflationary periods, substantially modest.

Why is this? Because inflation certainly, insofar as our country is concerned has followed the classic definition of inflation—excessive demand and insufficient supply, whether it be in the case of labor, whether it be in the case of manufactured goods, or whether it be in the case of foods and fibers.

Back in World War II we established the Office of Price Administration because we knew that the supply could not meet the tremendous demand created by the war for clothes, food, transport, guns, ammunition, fuel, housing, doctors, dentists, services—all of the things that go to make up our society. So in that period when demand greatly exceeded supply we rationed what we had and controlled inflation through Government action.

What is the situation today? Certainly there is no food shortage. As a matter of fact, our big arguments about the farm program have to do with surpluses. We have surpluses in every basic commodity. So much so that a heavy budget item involves the amount of money we have to pay out to warehousemen for storage of foods and fibers.

Do we have any shortage of the things that go to make up our clothes, the things we wear? Of course we do not. Another great controversy is raging now among the cotton producers as to what kind of cotton bill we should have. What will we do about the domestic mills and the price differential? What are we going to do about the two-price system? Why? Because we have too much cotton, not too little.

Do we have a scarcity of labor? Everybody knows we do not. Our unemployment rate is about 5.5 percent in the largest labor force we have ever known. These are people looking for work, these are people who are willing to bargain to get a job, these are people who need employment.

Are all of our plants operating at maximum capacity? They are not.

I am trying to outline to you, Mr. Chairman, the things that generate inflation. The basic argument of the gentleman from Wisconsin is in that direction. Are our plants turning out everything they can turn out? When you go to the appliance store can you get a washing machine or a deep freeze or an automobile or the other things that go to make for comfort and pleasure in our living today? You know you can buy these things readily today. The newspapers are packed and jammed with advertisements of sales, bargains, resale and discount houses, and all the other things to accentuate the movement of our products which are in excess supply, not in short supply.

Our overall industrial production stands at about 82 percent of capacity. That means that our aluminum plants, our steel mills, the basic industries in our country, our cement mills, and the others, can produce a great deal more. So where is the inflation? Where is the threat of inflation?

Let us look a little further at this unemployment picture. Not only do we have 5.5 percent of our labor force unemployed but we have the greatest number of young people in the history of the United States entering the labor force every year. At the same time we have so perfected this scientific marvel which we describe as automation that over a million and a half other people are being relieved of employment each year, and the prospect is that we must find new jobs, new occupations, new employment for these people.

So I say to the gentleman from Wisconsin, where are these engines of inflation? Where are the things which will stimulate inflation under his theory? Where are all these hobgoblins that he has hidden in the closet, when you take a

look at the economy, at production, at employment, at agriculture as it actually is, not as someone would like to scare us into what it might be? So I say, Mr. Chairman, that the argument that this bill without the adoption of the amendment proposed by the gentleman from Wisconsin will create inflation is just not so.

Actually, our experience since World War II with inflation demonstrates quite clearly that there is little connection between inflation and budgetary deficits or surpluses. Since World War II there have been only 6 years of significant increases in wholesale prices—by significant increases I mean increases of over 2 percent. Five of these six years were actually years of budgetary surplus. Moreover, during this period wholesale prices declined in 4 years and all 4 of these years were years of budgetary deficits.

Much the same point can be made by reference to consumer prices. Consumer prices have declined in 2 years and both of these were deficit years—1949 and 1955. In 4 other years when the rise in consumer prices was actually 1 percent or less, all 4 of the years also were deficit years. However, in the 4 years in which the Consumer Price Index rose by more than 3 percent all 4 of these years were years of budgetary surpluses.

The data I have just presented to you would actually suggest that there was an [P. 17124]

inverse relationship between inflation and budgetary deficits. I do not, however, mean to imply any such thing. Rather, I think it is clear that in fact periods of inflation—or absence of inflation—have been attributable in large part to factors other than the current status of the Federal Government's budget.

There have been two periods of significant inflation since World War II. First, during the period between the end of World War II and 1948, the suppressed demand for goods and services during World War II in part worked itself out in the form of higher price levels. During this period, we actually experienced substantial budgetary and cash surpluses.

The price increases occurred mainly through 1946 and early 1948. From 1948 through the middle of 1955 prices stabilized, and from 1949 through the early part of 1950 wholesale prices actually declined.

From 1950 through 1958, prices again rose due to two forces. First, the Korean war caused sharp price increases. Second, with the end of the Korean war there commenced a rather gradual up-

ward movement in prices due to the prosperity of 1955 through the middle of 1957. Again, it should be noted that in 1956 and 1957 the Government ran substantial budgetary and cash surpluses. In part, the price rise during this period was due to an increase in the money supply including deposits and also a sharp increase in private indebtedness.

From 1958 onward, prices have remained remarkably stable. The wholesale price index has been virtually unchanged from 1958 through 1962. The rise in the cost-of-living index during this period has been modest, amounting generally to about 1 point a year in the index and mirroring little if any more than the simple rise in wages.

Given this experience in the past and our present underutilization of labor and plant and equipment capacity, it really just does not make sense to talk about inflation resulting from this tax reduction.

The second issue raised by the opposition is the issue of deficits. This of course is largely politically motivated, because the opposition wants to make a campaign issue on the question of spending.

I must say that I cannot recall when a President has so explicitly put himself on record on holding down spending as President Kennedy has. This is thoroughly documented in the gentleman from Arkansas, Chairman MILLS, speech of yesterday. First, he wrote a letter to the chairman which you will find on pages 124 and 125 of the committee report, in which he explicitly commits himself to preventing expenditure increases arising from this bill from exhausting the additional revenues which arise as the economy expands. Thus he commits himself to a policy of holding down Government expenditures while incomes as a result of the stimulus of this bill rise and provide the additional revenue necessary to meet and then surpass this expenditure level.

Second, the President subscribed to the statement of our chairman to the effect that this bill establishes the policy of stimulating the economy through tax reductions rather than through increased Government spending.

Third, the President, in his television appearance the other evening, pledged strict economy in Government expenditures.

At the same time the expenditure level is held down this bill will, after a brief transitional period, result in the collection of more revenues than would have been the case in the absence of the tax reduction. This occurs because this bill leaves more money in the hands of con-

sumers which will be used by them in very large part to purchase goods and services. This in turn will generate more income.

At the same time this bill provides more consumer purchasing power, it also provides more funds for investment. This occurs both through the corporate rate cuts and through the individual income tax reductions in the middle and upper brackets. In addition, I believe that the tax reduction on capital gains will also be beneficial in this respect. This prospect of increased profits together with a greater demand for products and services is sure to increase substantially the funds invested in plant and equipment. Thus we will have our increase not only in the demands for consumer goods and services but in the demand for machinery and plant and equipment as well.

The gentleman from Arkansas, Chairman MILLS, suggested yesterday that in a very few years these factors will, even with the reduced rates applicable, result in greater revenue collections than the present rates do with the lesser economic activity. I believe his estimates in this regard were conservative.

One thing the opposition forgets is that this is a program to achieve both full employment and a balanced budget. The alternative, however, is not a balanced budget with unemployment but rather a deficit with unemployment at a high level. The prospect is for the continuation of the present unsatisfactory situation which has existed since 1957 when we have had deficits in 5 out of the 6 years, and unemployment in excess of 5 percent in each month of these years. Therefore, let me assure you that the best prospect of getting rid of these deficits is not to continue to rock along in our present unsatisfactory situation. Rather the prospect for getting rid of deficits is best if we give our free enterprise system enough freedom and incentive to provide the prosperous economy that we must have.

I followed the arguments of the gentleman from Wisconsin and the gentleman from Missouri rather carefully, and I find in many ways they do not seem to be in agreement; but that is their problem and not ours.

The gentleman from Missouri in his remarks here on the floor on yesterday said that this bill was the creature of Dr. Heller; at least, that is what I understood him to say. I have already said who I think put this bill together. But let me say here a word or two about Dr. Heller, because I think maybe in some ways he has gotten a little jostling, which is fair in this business of public affairs.

He used a phrase which has been

manna from heaven, so to speak, to my Republican colleagues. He talked about the Puritan ethic. I do not know what Dr. Heller meant by the Puritan ethic, but if he meant that the society in which we live, which is a highly industrialized, urban society, is somewhat different from the society in which our Puritan ancestors lived, then I must say that I must agree with him.

Why do I say that? When our ancestors came here they could not go around to the supermarket and get a nice cut of roast beef for 89 cents a pound. They could not go down to one of the big department stores and buy every gadget that you need to put in your house. They could not look in the telephone directory to get the name of a contractor, to have him come out and build them a house. There was no way for them to get from one place to another, and there was no way for them to communicate one with another, unless they rode a horse, if they had a horse.

As a matter of fact, that society could not exist today in our society. I am not for one moment saying that we should not be prudent, that we should not be frugal, that we should not husband our resources, that we should not scorn waste and seek efficiency.

I say that we live in a society which is totally different, economically speaking.

We still have the same moral values and the same respect for liberty and for freedom and for a free society as our ancestors. But the economy is quite different as everybody knows. Our Puritan forefather had to go out with a shooting iron, so to speak, and shoot himself a deer or a squirrel for something to eat. Today we live in a society which has been described as an affluent society and rather than having an economy of scarcity, we have an economy of abundance.

Even in the matter of savings. We save about 7 percent, that is about the overall rate. If we had very much more than that, we would not improve our economy. In many ways it would be less virile than it is now because this money would become sterile. Right now we have our investment funds, building and loan associations and our banks and others. The problem is not to find that money. The problem is to invest the money. So I say, and this is merely by way of digression, if that is what Dr. Heller meant by this expression, then I do not think Dr. Heller made any great radical pronouncement.

As I understand, what we are trying to do here—and again I say this is a Ways and Means Committee bill and it is not a Dr. Heller bill nor is it a Secretary

Dillon bill—it is the result of the combined work and efforts of this committee—Republicans and Democrats together—but I do think there is a basic

[P. 17125]

philosophy and I am surprised that the gentleman from Missouri does not recognize it and our chairman stated it as well and as ably and as succinctly on yesterday as anybody could state it—namely, that our economy is made up 80 percent of the private sector and 20 percent of the public sector.

What this bill seeks to do is to stimulate the private sector and not the public sector. That seems to be a rather conservative approach. I frankly do not understand why my friends on my left side on the other side of the aisle would be opposed to that approach. That has been the approach in the business community.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield so that we can have an understanding? We are not opposed to that approach. We are in favor of that approach if you would follow through on it.

Mr. BOGGS. I will let the gentleman state his case. It is very difficult for me to understand because I, frankly, think the net effect of his proposal would be to kill the bill.

Now what does the business community say about it? I want to read a paragraph from an address by Mr. T. Stuart Saunders. Who is Mr. Saunders? Judge Smith, I am sure, knows Mr. Saunders. He is president of the Norfolk & Western Railroad, a very successful railroad. I am told he may be president of the Pennsylvania Railroad. Mr. Saunders was making this speech, if I remember correctly right here before the Virginia Bankers Association. Incidentally, Mr. Saunders—and I know he is a good friend of our colleague, the gentleman from Virginia, Governor Tuck, because the Governor told me.

Mr. Saunders and Mr. Henry Ford—and I do not believe Mr. Ford is a Democrat—I wish he were—but I do not think he is. In any event, Mr. Ford and Mr. Saunders head up this committee. I think it very appropriate, incidentally, that Mr. Ford should head it up, because if ever you have a demonstration of the basic philosophy involved in this bill, you have it in the case of the Ford Motor Co.

Back in the early part of this century Mr. Ford had a little automobile plant and he had a few workers. He got the idea one day that he would put out the cheapest automobile ever manufactured, and it was a cheap automobile. Every-

body who is as old I am remembers it. At the same time he raised wages. Now, this is pretty much like the idea of cutting revenue with the expenses going up. It is the same idea. And this is the great basic Republican argument against this bill.

What happened? Well, need I tell you? Mr. Ford sold so many automobiles at such a cheap price that he got to be one of the richest men on earth. What he simply said was that by stimulating the demand by making it possible for the American people to own this automobile and by being satisfied with a very small, nominal profit he would promote his business and he would be more successful. That is what this bill seeks to do. This bill says in effect that by stimulating the economy we will create more jobs, more employment, more revenue, and we will balance the budget.

Here is the quote from Mr. Saunders:

A tax reduction of \$10 billion would most likely result in an initial increase in the current Federal deficit. Nevertheless, this program of tax revision is one of our best chances for the eventual reduction and elimination of Federal deficit financing. This approach to the elimination of Federal deficits is entirely consistent with free enterprise economics.

A business wishing to increase its profits or eliminate an operating deficit must decide on one or both of two courses: cutting expenses or increasing revenues. A good way to increase revenues is to lower prices with the expectation that increased sales will more than offset the decline in revenue per unit. In like manner, if the Government is to avoid deficits, its revenues must equal or exceed its expenses. Government revenues can be substantially increased through a reduction in tax rates which would spur the economy and create a larger gross national product from which tax revenues could come. In fact, this is the only way to avoid the law of diminishing returns brought into operation by the 91 percent tax rate on individuals and the 52 percent tax rate on corporations.

Like a business launching a campaign to increase sales and profits through a reduction in prices, the Government will be faced with a temporary increase in the gap between revenues and expenses until reduced tax rates have their stimulating effect, but the goal of renewed economic growth and fiscal stability is well worth the price. We all applaud the businessman who is able to increase his profits through lower prices and higher volume. He not only strengthens his own finances, but also contributes to higher living standards and increased purchasing power. This principle is followed by chain stores and practically all businesses which depend on high-volume sales; and when the Government uses lower tax rates to spur economic growth and increase total tax revenues, it is applying the same principle.

Now, you know back in 1954 in President Eisenhower's administration we cut taxes and in two of the years that Pres-

ident Eisenhower had a balanced budget—and he only had 3 out of 8—they were the years that followed the reduction of taxes in 1954.

This is despite the fact that in each of those years thereafter—and this is a matter of record, and I have it before me—the expenditures of the Federal Government went up. Incidentally, we cut taxes last year. We cut taxes last, year through the investment tax credit for business. I do not know how my Republican colleagues on the committee voted on that. I know a lot of them were opposed to it. As a matter of fact, there is a section in the report where they opposed the liberalization of the investment tax credit which we wrote into this bill, if I remember correctly. Despite the fact that we cut taxes last year, as all of you know, our revenues are up this year. Why is that? Because business is better.

Let us take the opposite side of the coin. In 1958 Secretary of the Treasury Anderson, the Secretary under President Eisenhower, a very able man and an admirable man, sent budget estimates to the Congress. I saw those estimates both on the Committee on Ways and Means and the Joint Economic Committee on which I sit. Secretary Anderson said then:

We will have a surplus of \$500 million at the conclusion of this fiscal year 1959.

Now, what really happened? We had a deficit of \$12,427 million or, if I may say so, the largest peacetime deficit in the history of the United States. Now, I am not blaming Congress for that. We did not appropriate \$12 billion more than the budget estimate of President Eisenhower. No, we did not. What happened was that we had a precipitous recession and Government revenues went down by about \$8 billion and, rather than being able to reduce the President's budget, we had to increase the President's budget because we had more unemployment and we had to increase appropriations for unemployment compensation, for social security, for welfare programs, for public works—all of the things that all of you know about. So the opposite side of this coin, the side that the gentleman from Wisconsin [Mr. BYRNES] would give you or the gentleman from Missouri [Mr. CURTIS] would give you, does not mean you are going to have a balanced budget. Quite the contrary. In my judgment—and I think I am completely and totally correct in this assumption—if we continue on this plateau and if we do not enact the tax bill, business will start slipping off, employment will start falling off, revenues will start decreasing, and pressures will build up on us for more appropriations.

Recently Great Britain has embarked upon a tax reduction plan very similar to the one now before us. In April of this year, the British Parliament enacted a tax reduction program calling for individual and business tax reductions of \$750 million in fiscal 1964 and an additional \$1 billion in fiscal 1965—a total of \$1.75 billion. The reduction is equal to roughly 2.2 percent of British GNP and, as such, is equivalent to a tax cut of \$11.7 billion based on GNP in the United States. While these reductions have not become fully effective, the effects on the unemployment rate are startling. In February of this year, 3.9 percent of the British population was unemployed. The average for the first quarter of 1963 was 3.5 percent. After the April tax reduction, this figure began a steady decline. The latest available figures show, as of August, only 2.2 percent of the population unemployed, a reduction in the unemployment figures of 40 percent. Comparable experience in this country would bring unemployment to at least the 4-percent target level.

The British budget, submitted by the Conservative government, calls for an increase in expenditures of 7½ percent, compared to the 4.8 percent requested by the President in his 1964 budget. The consequence in terms of the British deficit would be the United Kingdom's largest postwar deficit, \$1.9 billion, the equivalent of a \$13.5 billion cash deficit in the United States, or an administrative deficit of at least \$16 billion. It should be noted that the British took this action in spite of its possible repercussions on their balance of payments, which is far more precarious than our own situation.

[P. 17126]

Apparently some of our colleagues find this theory novel and untried solely because they are not aware of the experience of other countries in the use of this technique. I submit that it has been tried and it has worked. This is but one example.

So, if we do not reduce taxes, rather than having a balanced budget, an active economy, a growing economy, we will have a declining economy, more unemployment, greater deficits, and less hope for the United States of America. That is the issue involved here, purely and simply, in its very essence.

Now is this radical? Has this ever been done before? Yes, in England and Western Europe as first pointed out—and in our own country in 1948, 1954, and 1962.

Let me deal with one other subject, because no one here has dealt with it.

No. 1: If you will examine President Kennedy's budget for 3 years and compare those 3 years to the last 3 years of President Eisenhower's administration, you will find that if you eliminate defense and space and interest, relatively speaking, the Kennedy budget has been less than the Eisenhower budget. But, having said that, let me say another thing. And I make no apologies for saying this. I know—and this applies to both sides of the aisle—that the Members of this body, when they see a worthy project, when they see something that needs doing, invariably and inevitably come up and point out why it should be done.

Now, why is this? Does this mean that they are hypocrites? No, it does not—not at all. What it means is that there are some areas where Government has to operate. The notion that every Government expenditure per se is bad and evil just is not so. Why, some of you have had the experience, I am sure, of watching a picture flashed on your television screen transmitted by Telstar from Europe or from somewhere else in the world. And I am told the time is coming when there will be a whole series of these instruments orbiting around our earth so that you will be able instantaneously to see what goes on elsewhere, to communicate. And the additional scientific data accumulated therefrom defies the puny knowledge imparted to me.

But without a Government program and without the scientific research that we did in space you would not have that communication. And I am happy that that is a joint operation today, that Government and business have joined together in a joint corporation to take advantage of the knowledge that has been gained.

There are many people who say we should not have a space program. They say, "Why go to the moon?" As a matter of fact, with all due deference to the former great President of the United States, President Eisenhower, he is one who has been in the forefront of casting doubt and expressing skepticism about our space program. This is one of the big programs. This is one of the programs on which we spend a lot of money. This is certainly not a program in competition with private enterprise. I defend that program on the basis of utter, complete need and necessity. And yet it is one of the big programs that calls for the expenditure of a tremendous sum of money. And I defend it very simply. It is not a question of going to the moon. It is not a question of putting a man on the moon before a Russian gets there, because of the initial competitive advantage it might create in

the minds of men somewhere else. It is a question of keeping ahead in the eternal search for knowledge, in the eternal need to be ahead if this Nation is to keep moving forward.

Mr. Chairman, there is no such thing as a static society. My friends on the Republican side, their whole idea, is that we can have a static society, that tomorrow we can say, "No longer will we spend more than x dollars for x purposes."

Mr. Chairman, I deny that. I think it is wrong. I think it is shortsighted. I think it would end ultimately in the end of the United States of America. I say that, not defending spending for the sake of spending. I say it in the very sound proposition that we are a growing, vibrant nation.

Mr. Chairman, there has been a great deal of talk about population explosion. We have one in this country. I come from a State that has about 4 million people. But every year there is a new State of Louisiana added to the Union. Four million new Americans, creating new problems, new challenges, new demands. If you take a look, you will find that the most relative stability in spending—private, local, and State—has been Federal spending.

No one welcomes an increase in debt for its own sake—whether it is in his household, his business, or his Government. Every debt should pass this test of soundness and prudence: Will it pay for itself in added productive power and human well-being? We must therefore ask ourselves whether the added debt resulting from the tax program will pay for itself in higher output, more jobs, and a greater legacy of real wealth—houses, schools, productive plant and equipment, and so on—to use and to pass on to our children. Under conditions of full employment and inflation, and answer would be "No." But when manpower is idle and excess capacity is waiting to be activated by a tax stimulus, the answer is "Yes."

For those to whom the existing size of the debt is worrisome, two sets of facts should be reassuring. First, the Federal debt has been growing far more slowly since 1947 than private debt: it has risen 15 percent while corporate net debt rose 218 percent, other private debt 383 percent, and State-local government debt 412 percent. Second, the Federal debt, is falling steadily in relation to the economic size and strength of the country. In 1947, the Federal debt was 110 percent of our gross national product. Today, it is only 53 percent, and steadily falling even with recent and prospective deficits. The Federal debt is becoming a progressively lighter burden on our growing economy.

During this debate, charges of reckless spending have been continually leveled at the administration and the specter of vast Government debt has been constantly raised. However, a closer look at the facts reveals a far different picture. Government assets have grown at a much more rapid rate than has public debt. At the end of fiscal 1958, Government assets were valued at 94.8 percent of the public debt, but by 1962, assets increased to 100.4 percent of the public debt.

From fiscal 1960 to fiscal 1962, the debt increased at a rate of 2.1 percent, while at the same time assets grew at a rate in excess of 4.2 percent per year. It is true that these assets are not wholly convertible into currency; however, nearly 72 percent of these assets at the end of fiscal 1962 are in the form of personal property, or a figure of \$213.3 billion which are more easily converted. Even the real property assets can be converted though admittedly not as easily.

Government procurement policies have become increasingly more concerned with increasing Government assets, and the charge of reckless spending is without foundation when one considers the existing facts.

So, Mr. Chairman, I say to the gentleman that what he really says is that we will stand still, we will not face the challenge of the last part of the 20th century. We will deny business, the private sector of our economy the right to move ahead, to make its own decisions in a free society in order to pay a tribute to a shibboleth that has no meaning.

I hope, Mr. Chairman, that this motion to recommit will be defeated and that this bill as reported by the committee will be adopted by a large bipartisan majority.

Mr. Chairman, the Committee on Ways and Means has not brought you a bill which is devoid of support. On the contrary, the tax reduction involved in this bill is supported by a broad spectrum of opinion throughout this entire Nation, from businessmen to labor, from economists to students of business and Government, from Governors to State and local officials. Indeed, since the bill has been reported there has been what can aptly be described as a rising tide of support and endorsements of the bill and the general principles which are embodied in it. These endorsements urge favorable and immediate action on this bill at this session of this Congress.

As I stated, the organizations making these endorsements cover a wide spectrum of those concerned with the economic, business, labor and financial operations of the Nation. Let me read a few of the prominent nationwide orga-

nizations to which I refer:

The Business Committee for Tax Reduction in 1963, AFL-CIO, National Federation of Independent Business, National Automobile Dealers Association, National League of Insured Savings Associations, American Life Convention, Life Insurance Association of America, National Association of Retail Grocers, National Candy Wholesalers Association, Inc., National Coal Association, National Machine Tool Builders' Association, Na-

[P. 17127]

tional Food Brokers Association, U.S. Wholesale Grocers Association, Associated Retail Bakers of America, National Association of Real Estate Boards, American Textile Manufacturers Association, National Small Business Association, and Smaller Business Association of New England.

I also referred to the support for this measure which has been received from Governors and State and local officials.

I have received, as I am sure is true of other members of the committee, recommendations and expressions of support from literally hundreds of State and local officials throughout the Nation.

Mr. Chairman, this bill is a Ways and Means Committee bill. It has the strong support of the administration; it has the strong support of business—both large and small; it has the strong support of labor—both large and small; it has the strong support of trade associations—both large and small; it has the strong support of the overwhelming majority of economists and students of Government; it has the support of the American people.

This bill should be enacted now without delay.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 15 minutes to the gentleman from Texas [Mr. ALGER].

(Mr. ALGER asked and was given permission to revise and extend his remarks.)

Mr. ALGER. Mr. Chairman, we are well past the midpoint in our 2 days debate, and no one has yet talked about the bill—the provisions, how it will affect taxpayers in various brackets, and the structural changes, besides the rate cuts, individual and corporate. Apparently, the closed rule has served to prevent discussion because no amendments or changes are permitted, except the motion to recommit.

Here is the bill, 300 pages long, who knows what is in it, except the chairman and perhaps several members of the committee and the committee staff. To digress, I want to compliment the staff members for their diligence, ability, and helpfulness.

Members have not heard the bill's provisions discussed, do not know the intent and effect of countless changes, and yet voting positions are crystallizing.

We should be discussing the rate changes, of individuals and corporations, at the various bracket levels, and for corporations the accelerated pay-in which limits the effect of their tax cut, which will not be even as low as pre-Korean taxes. We should debate and understand the reverse progression of the structural changes, the minimum standard deduction, the elimination of deducts, new group insurance tax and many others.

The chairman did not attempt to present the basic provisions of the bill, either before the Rules Committee or yesterday before the House. He invited questions but none were asked—and I know why. Without amendment possible all attention is focused on the primary matter of the recommit which permits the only and all-important change—a chance to relate the tax cut to spending. Eight hours will hardly give time enough for that. What a pity, however, to disregard as we are the consideration of the details of this bill. This is wrong. If understood, many Members might be disposed to oppose the bill, regardless of the recommittal motion.

However, there will be questions asked from constituents. When the IRS agent rules against a constituent or his tax attorney, and the constituent disagrees or is faced with overpowering complexity, he will ask, "How come?" And the answer will come from the IRS agent, "It was in the new tax bill." From his ruling there will be little appeal and ignorance of taxpayer and/or Congressman no defense. The Members had better be forewarned that this is not a good bill. It is bad legislation and should be closely examined and understood.

Are Members concerned about what is in this bill? From the demagogic approach of the majority party Members and of the President, I wonder. We Republicans are very concerned over specific areas of the legislation, but principally over the deficit financing that accompanies a tax cut with high and increasing levels of spending.

This legislation is not just a tax cut vote. It is fiscal irresponsibility—indeed fiscal suicide for our country if we do not relate tax cut to spending level.

Indeed, many of us would prefer a much lower level of spending than the \$97 billion for fiscal year 1964 and \$98 billion for fiscal year 1965 but we can agree that this level that holds the line is better than no effort to relate tax cut to spending. As for me, I cannot in good

conscience agree to less than a balanced budget, so I must oppose the bill after voting for the recommit tie-in with spending level.

How unfortunate that some including southern colleagues may oppose recommit because it does not go far enough. How many times in the House do we have this choice? But we are not relieved in our disappointment from improving the bill as best we can. The recommit is an improvement. The gentleman from Arkansas, Chairman MILLS, in presenting his views on the one hand almost entirely overlooks the reality of debts and deficit financing as we know them. On the other hand he firmly disassociated himself from the President who would follow tax cut and increased spending paths at once. Our chairman chose the tax cut route and indicates that he refuses to go the spending route. Good, but he is alone, so far as the President is concerned, by any test of speech or practice associated with President Kennedy.

Our chairman sought to put the debate on the basis of confidence in Congress doing the right thing in cutting spending. Well, we seldom have done so. That is why we have a \$305 billion deficit, due to soar to \$320 billion soon. That is why we had and have inflation of our money. That is why we do not balance the budget, and put boondoggle public works projects into legislation right here on the House floor, without committee or Corps of Engineers approval. Congress has lacked self-discipline in money matters. How in the world can we now be confident in our willingness to reduce spending or even holding the line?

Our chairman stressed the help needed in the private sector, in business, rather than the encroachment of Federal Government in taxes and spending in the public sector. True enough, but the implication that we will give business and individuals a little cut and then see if they do everything, prices, foreign growth, employment, prices, foreign competition and all the rest or else we will pour in Federal money in bigger spending. I do not appreciate this threat or this approach. Corporations and individuals will still be too heavily taxed, and regulated by all powerful Uncle Sam.

For a long time our Government Democratic leaders have not shown confidence in the private sector. We welcome this change if, indeed, our chairman speaks for others, including the President, but I, for one, doubt it.

Of course, we can balance the budget. Certainly we can cut the debt. Assuredly we can cut the taxes and make

both ends meet. But we must want to do it. There are eight or more appropriation bills left. We can cut back, assign more realistic priorities and do all these things—if we want to badly enough. It is up to us.

I am for a tax cut, always. But it must be meaningful, not a hollow mockery wherein we abdicate our responsibilities.

Yet we are not discussing the provisions of the bill, we cannot amend it. Some Members are already saying they are all for tax cuts, regardless of spending.

Perhaps then I must talk to and for the children to whom we are charging our profligate spending, and fiscal irresponsibility. The debt we are incurring is tax evasion. We dodge paying enough in tax, we deficit finance and charge to the future who did not run up the bills, both the principal and interest in higher tax is for them. Unless, of course, they repudiate the lawful debts. It is wrong to borrow money for a tax cut.

When the gentleman from Arkansas, Chairman MILLS, stated that we must now control spending by cutting revenue I could hardly believe my ears. I categorically contradict this statement, in fact. History and a \$305 billion debt proves the reverse. Government can borrow and print money without limit except, debt ceiling which we periodically raise as needed. When the chairman and the President talk of an "even tighter rein in Federal spending," we could all laugh if it were not so painful. There has been no rein on spending, much less tight or tighter as all the facts of spending show. Let us look at them.

How about the increased spending under President Kennedy and our Democratic leadership. Page 5 of the report shows an increase in spending level of \$23 billion in 5 years from \$78.9 billion in fiscal year 1961 to the estimated \$102 billion of 1965. In addition let us add the \$5 billion in assets sold, and there will be more, this beyond expenditures.

[P. 17128]

How about debt level? In 5 years we see the President, starting with the balanced budget he inherited from the preceding administration, add \$35 billion. This profligate spending and debt increase is fiscally and morally wrong—yet few if any will even debate this.

The basic element of this whole debate will not be debated on this floor, namely, the merit of the balanced budget concept as against the planned deficit concept. No one apparently in this House will champion the planned deficit. Everyone here is for the balanced budget, at least, says so, or rather will admit

nothing else. So the principal debate will never be joined. The liberals, the Democratic leadership will not even admit the validity of this difference in viewpoint. Then am I wrong? Is everyone for the balanced budget concept, and for cutting back spending to relate to the tax cut as the gentleman from Arkansas, Chairman MILLS, advocates in section 1 of the bill?

Let us look at it. In January the President said there must be no matching cuts in spending when taxes are cut. Mr. Heller, the President's chief adviser, says repeatedly there must be no cutback in spending. Indeed, spending must be increased and new programs started. Mr. Meany, who dictates a certain amount of democratic policy, says that cutbacks in spending would nullify the advantages of a tax cut. Recently the Commerce Department said the same.

There you have it. These men believe in deficits—in planned deficits, not balanced budget. Now who will champion that view here? No one; of course not. And yet that is the motive power of this bill. It will never be debated. Why cannot we have a straightforward debate instead of many talking one way but believing another, or in silence giving support to that philosophy with which they do not agree?

The Republican tax cuts, and philosophies have resulted from balanced budgets, surpluses, and debt retirement, in 1947 and 1954. Congressman Kennedy in 1947 opposed the tax cut. Historically Republicans have cut taxes 9 times—boosted them once—and Democrats have cut them 1 time, but boosted them 14 times.

The Kennedy spending program is not only incompatible with tax cut but proves that we have not earned a tax cut. As Arthur Burns, noted economist says, this tax cut without spending cut means deficits for years to come. President Kennedy and the Democrat leaders have abandoned the balanced budget concept over a budget cycle or business cycle.

Even the Ford businessmen's committee's statements have generally included expenditure control, otherwise most businessmen would not have served and given their support to the tax cut.

At the end of my remarks I shall include some of the answers to my letter requesting their views of taxcutting without cutting spending.

The people believe in fiscal balance, in balancing outgo and income in home and business and Government. Bernard Baruch calls unbalanced budgets as uneconomic and immoral. The Puritan ethic is dear to our people. They do not be-

lieve in mortgaging their children's futures by our debt transference. Mr. Heller does not understand this. He is amazed to see how people feel.

Dr. Heller went on to say that:

It is quite remarkable that the basic Puritan ethic of the American people should be such that they want to deny themselves tax reduction * * * because of their fears of deficits, and the additions to the national debt.

He proposes to reeducate them, and in the meantime I suspect he wants the President and his Democratic leaders to ram the new concepts of the New Frontier down their throats—until they see the new light.

Now, lest you do not believe that Mr. Arthur Burns is right in warning of imminent inflation and devaluation of our money and that the New Frontier will be responsible, indeed, let us look at the facts. The President believes and forecasts that debts will lead to the balanced budget, inasmuch as expenditures will be held steady. Now look at the facts. Expenditures have increased by \$5 billion yearly on the average, and yet many new programs and new increases are waiting our increased spending at the President's insistence—foreign aid, ARA, Domestic Peace Corps, YCC, mass transit, public works, aid to education, to name but a few.

Then we are told that receipts will be up \$6 billion per year. Who knows? This is just a forecast, and a hope.

Meanwhile, deficit financing by selling Government bonds is getting tougher all the time. Where is the money coming from? Meanwhile, Mr. Heller keeps assuring us that deficit financing is fine. This is the "time bomb" of inflation.

The tax bill will lead to bigger deficits, deficits which have never produced growth or employment in the past. When the ARA program failed, the President asked for more funds for it. This is self-destruction. We will bury ourselves. Lenin gave the formula for destroying a society—debauch the currency. If inflation fails and there is recession, what will we do then?

President Kennedy claims to have reduced spending because the deficit was cut \$2.6 billion. Yet, none of the reasons showed expenditure control. The actual reasons for the reduction of deficit were, first, \$2 billion in assets were sold; second, receipts were up; third, welfare requests were down; fourth, advance payments were made by foreign governments; and, fifth, public works projects were postponed.

Meanwhile our President added 137,000 more Government employees plus 36,000

requested in fiscal year 1964 for a total of 173,000 additional. Also, the President pleads with us to restore congressional cuts.

Contrary to the President's hope of improving the balance of payments, there will be a reverse effect. If consumer purchasing power is increased, not keyed to increased productivity, there will be more imports purchased, prices will rise, and exports will reduce. Further beyond the tax burden balance of payments will be hurt by other Government action: First, inflation, cheapening of currency because of deficit financing; second, unrealistic depreciation; third, Federal regulation, implied or direct, in wages and prices; and fourth, tariffs are not reciprocal.

Greater inequities will result from this bill's provisions as we increase tax of the sick, those who itemize deductions, dividend recipients, and simultaneously hand out billions to big corporations in the investment credit subsidy of \$4.9 billion in 10 years. We need accelerated depreciation, not the subsidy.

Then is the tax cut worth such a high price, when it will amount to \$1 or \$2 per week for the modest income? Inflation and a cheapened dollar is too high a price, is it not?

This tax bill fails to achieve the President's objectives because of fiscal irresponsibility. Let us look at these objectives:

First. Increase economic growth. Deficit financing cannot do this. Perhaps the answer here may be found in yesterday's RECORD, page 16972, in the refutation of retarded growth given by a well-known liberal, wherein our economic growth slowdown, a reason for the tax bill is nonexistent; that our economic growth is good as is.

Second. Relieve unemployment. This objective cannot be reached by this bill. The problem is the unskilled. The skilled are working. There are many skilled jobs awaiting workers. Retraining is the answer.

Third. Free-up investment capital. By deficit financing? No. The tax cut will be soaked up by Government bonds sold as part of the deficit financing.

Fourth. Increase consumer purchasing power. How? By cheapening the dollar through inflation to more than match any additional dollars left in the taxpayers' hands. Of course not.

Fifth. Simplify the tax law. This, of course, is a joke, and a bad one. We have unbelievably complicated the law with deletions, deductions, changes, new rules, conditions, ad infinitum. If we wanted to cut taxes and be simple we could have permitted each taxpayer to

cut 15 percent off what his tax liability would be when figuring it up as he does now. This would have sufficed and been preferable to a bad bill like this which is not the basic reform we really need.

For my part, I would like to suggest that we consider the elimination the attainment of social objectives by the tax law and get back to simply raising revenue—all that is needed. Eliminate the punitive and the reward, the carrot and stick. Think about eliminating entirely any capital gains tax—no tax on capital gain.

Finally, my own pet idea is to return to a flat tax, the same percentage for everyone. It might be of interest to look in the charts and tables pages 279–282 at the flat tax comparisons. After business deductions with today's exemptions in order to raise the revenue we do today under individual income tax, \$49 billion, we would each pay 18 percent of our income. To raise the \$40 billion of the

[P. 17129]

President's bill the flat tax would be 15 percent of income. To balance the budget, that is, to raise \$57.8 billion, the tax for each would be 22 percent. Obviously, this needs study. Surely, the equity is there. This is the capitalistic, not socialistic, scheme which we now have in our progressive rates.

Finally, we should be debating the faults of this bill—not taking it, as a package, unquestioned, except for political differences.

So I will now address myself to comment on a few of the substantive provisions contained in the bill before this committee. The committee report indicates that the bill contains 23 of these structural changes. Some of them are rather limited in their impact, others are of farreaching applicability and significance. Some of them I regard as meritorious and others I find to be devoid of justification. These structural changes might be said to range from a liberalization of the so-called child-care expense deduction to major revision in the tax treatment of capital gains. Included within the range are changes affecting deductions for medical expenses and moving expenses, the taxation of group-term insurance and stock options, and the tax treatment of natural resource income. I will not discuss all of these matters, but I would like to refer to a few of them in a little greater detail.

1. CAPITAL GAINS

Generally speaking I approve of the liberalization made in the treatment of capital gains. Indeed, my principal regret is that we did not accomplish even greater liberalization. It has always

been my view that the causes of tax equity and economic advancement would both be better served if we did not tax gains on the sale of capital assets. By the removal of this tax we would be eliminating an inhibitant to the efficient use of our economic resources and we would also be eliminating one of the major factors inducing complexity in our Federal tax structure. While we have not abolished the tax on capital gains we have made a significant step forward in the liberalization provided in this bill.

2. DEDUCTIONS

A second change on which I will comment pertains to the disallowance of deductibility of certain State and local taxes. Under the bill a deduction in computing Federal income taxes would be disallowed with respect to taxes on gasoline, automobile licenses, alcoholic beverages, cigarettes, and certain other excise taxes. While under this proposal State and local taxes on property and income as well as general sales taxes would continue to be deductible, the principle of disallowance would be established as a precedent for eventual extension to other State and local taxes. I am concerned over the implications of this change for a number of reasons. Foremost among these is the ominous import this change has for the ability of State and local governments to finance the goods and services they provide for our citizens. This is an attack on their sovereignty and another step by the Federal bureaucracy toward making our State and local governments a mere administrative appendage to an omnipresent Federal authority. There is no rationale or logic that can be associated with this change; its only justification is an arbitrary attempt to raise revenue in a very shortsighted way. Those Americans who still believe in preserving the integrity of our State and local governments have cause for genuine concern over this unwarranted change affecting State and local taxation.

3. GROUP TERM INSURANCE

A third substantive change that I have selected for specific reference relates to the proposal to impute tax liability to employees with respect to the employer paid premiums for group-term life insurance to the extent the amount of insurance exceeds \$30,000. This is an administration recommendation which received committee approval except that the original proposal would have exempted only \$5,000 of such coverage. The only thing that can be said for the committee action in raising the exempt amount to the higher level is that fewer of our citizens will be directly affected by this imputation of taxable income when in fact there is no income.

Mr. Chairman, this imposition of tax on employer-employee endeavors to provide family economic security, without reliance on a Government handout, is dangerous in its implications and significantly increases the complexity in our tax law for an estimated \$5 million in added revenue. Since 1920 to date the Treasury Department has held that premiums paid by an employer for group-term life insurance do not constitute income to the employee. The specific ruling on this point recognizes "the policy has no paid up value either to the employer or the employee" and "the premium paid therefore is in no sense gain derived or realized or capable of being realized by the employee in dollars and cents." Therefore, what we are doing is seeking to tax the "feeling of contentment that provision has been made for dependents."

The change affecting group term insurance has serious implications for other areas of employer-financed benefits such as health insurance, social security, and workmen's compensation. The proposal also does violence to the basic concept of group term insurance. In a real sense this is retroactive legislation in that it threatens to disrupt financial plans made over the course of a lifetime for family protection.

4. 4-PERCENT DIVIDEND CREDIT

Mr. Chairman, a fourth structural change to which I intended to make specific reference has already been the subject of extensive comment. Rather than repeat the arguments already presented against the repeal of the 4-percent dividend-received credit, I will associate myself with those criticisms of this provision of the bill. Suffice it to say that those millions of Americans who have invested their savings and capital in the development of our free enterprise system are to be the victims of the substantial injustice done by the repeal of this limited relief from the stifling thrust of double taxation. Both the risk takers and the job seekers will be disadvantaged by this retreat from sound tax policy. Instead of repealing the 4-percent credit we should be doubling it just as the bill doubles the present dividend exclusion. If it is sound tax policy to exclude the first \$100 of dividend income from tax liability, why is it sound to reimpose the full thrust of double taxation on dividend income on amounts over \$100?

NATURAL RESOURCES

Mr. Chairman, my fifth reference to substantive changes in this bill relates to the taxation of natural resources. My comments in this regard will pertain not

so much to the specific provisions in the bill, but to the broader aspects of the problem presented by the more sweeping recommendations made by the Treasury.

It will be recalled that the administration proposed that, first, the depletion allowance be reduced by requiring losses on mineral property to be carried forward to subsequent years to reduce the 50-percent net income limitation on depletion deductions; second, the aggregation or grouping of properties provision be repealed; third, gain on the sales of mineral property be taxed as ordinary income; and fourth, foreign operations be affected by disallowing development costs as a deduction against domestic income and by restricting the applicability of certain foreign tax credits from mineral operations so they could not be used to offset U.S. tax on other nonmineral income.

Mr. Chairman, I will not discuss each of these proposals but will make a few general observations on the undesirability of these poorly conceived recommendations. These changes were urged without recognition or understanding of the important and constructive part that depletion has in our overall national mineral resources policy. The principal impact of these suggested changes would have fallen on the exploration and development of new oil and gas reserves. This result would have caused increased unemployment and a further decline in the economic conditions of the industry. Consumers would have been adversely affected by higher prices for petroleum products and energy costs would have increased. The ability of the industry to meet civilian demand and defense requirements would have been seriously impaired. The ability of American free enterprise to compete in world markets would have been damaged. Our very considerable efforts to advance the strength of the free world, particularly the underdeveloped countries, would have been weakened. The proposals would have damaged our balance-of-payments position and abetted the Soviet oil offensive. The proposals sought to increase the tax burden on the oil and gas industry in disregard of the fact that the industry's total tax burden is significantly higher than most other industries.

Mr. Chairman, the natural resource industry presented a very effective case against these proposed changes during the public hearings held by the Committee on Ways and Means. In executive session the committee rejected all the recommendations except the one re-

pealing the aggregation provision of existing law. Even this aggregation change cannot be justified by any proper argument and I believe it has been included in this bill because of the mistaken view shared by some that this bill "had to contain something increasing the tax burden of the oil and gas industry," an erroneous conclusion when all the relevant facts are known and understood.

Mr. Chairman, I will conclude my comments on the specific provisions of the bill by reference to the adjustments in rates. The rate changes are a "patchwork" job and cannot be called reform of a badly outmoded rate structure.

The individual rate reductions retain the same characteristics as the existing rate structure, enacted under the stress of depression and war. They leave the steep climb of progression in the middle income brackets just about where it is now. In other words, we are giving up \$9.5 billion of revenue in income tax reductions, leaving the job of reform of the rate structure to some future Congress. The reduction in the top corporate rate from 52 to 48 percent in effect reneges on a promise made each year since the Korean war, that the temporary 52 percent top corporate rate would be allowed to drop to the pre-Korean level of 47 percent whenever it was deemed the emergency was over. Further, H.R. 8363 encumbers even this rate reduction with the speedup in corporate tax payments thereby dulling the effect of the corporate rate reduction for the immediate years ahead.

I concur in the efforts to reduce the burdens imposed on our low and high income taxpayers, but I believe the apportionment of the tax relief in the bill is inequitable in that insufficient relief is given to the middle income taxpayer. I believe that under this bill those of our citizens who are in the middle income brackets will find their relative tax burden actually increased and this is an undesirable result. The committee bill fails to come to grips with our most pressing tax rate reform and that is the elimination of the steep progression in the middle brackets. The failure to deal with this need constitutes a perversion of incentive and will restrain the initiative and endeavors of this important group of citizens.

It would be better if this bill could be amended and debated further, of course. Since there is no opportunity to do so, let us recommit the bill to relate spending level to the triggering of the tax cut.

Fiscal prudence demands no less. Some, like myself, feel there should be a balanced budget as a condition. Without this feature, I cannot vote for the bill.

The letters from businessmen mentioned above follow:

JACK TAR HOTELS,
Galveston, Tex., September 18, 1963.

Mr. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN ALGER: I appreciate your letter of September 4 in reference to the statement of principles of the business committee for tax reduction in 1963, and must agree that your point is good. In essence, that while generally you seem to concur with the fact that we should have a tax reduction, you consider it impossible and impractical in view of the attitude of the present administration, which is that of excessive spending.

I have not been active in the organization of the business committee for tax reduction. My name as is often the case in organizations of this type, was suggested by a friend of mine who is quite active in the organization, and a man whose opinion I respect. Because of this I agreed to join the organization. I realize as a Republican and therefore a member of the minority party, there is probably little you can do about the necessary policing of the administration, which Congress normally is responsible for.

On the other hand, it has always been the voices of the minority that have finally been recognized by the voters if they are loud and persistent enough to accomplish the much needed economy that must be practiced at the Federal level. I believe it is the intent of the group known as the business committee for tax reduction to keep trying to let the public know the importance of sending more men like yourself to Congress who will make it possible to reduce taxes by reducing much of the needless spending that occasions our high personal and corporation taxes.

Regards,

E. C. LEACH.

HOUSTON, TEX.,
September 16, 1963.

HON. BRUCE ALGER,
Ways and Means Committee,
House of Representatives,
Washington, D.C.

DEAR MR. ALGER: Thank you for your letter of September 4, 1963, asking my views on a tax reduction.

I am in favor of a tax cut if the administration will adhere to a reduction in spending. However, if the administration does not reduce its spending, I cannot justify my position for a tax reduction.

Any time you are in Houston, I will be very happy if you will let me know so I can plan to have you meet some of my friends.

Sincerely yours,

W. J. GOLDSTON.

GREAT NATIONAL LIFE INSURANCE Co.,
Dallas, Tex., September 10, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR BRUCE: In your letter of September 4 to me as a signer of the statement of principles of the business committee for tax reduction in 1963, you asked my views as to whether the tax reduction bill now under consideration should be approved.

I did sign the statement of principles, but with the reservation that any tax cuts should be matched with a reduction in expenditures. While I am thoroughly convinced that without a sensible reduction in taxes our economy will be in a mess in the short run, and without a complete revision of our whole tax ideology, the economic structure will be thoroughly wrecked in the long run.

For shortrun purposes it is not feasible, I am sure, to redesign our tax structure, but I do think that taxes should be reduced rather drastically. Personally, it seems to me that there are two particularly vital spots in which very appreciable reductions should occur. The first is in corporate taxes, and the second in the higher individual brackets. Other taxes should also be reduced.

However, I again stand that expenditures should be correspondingly reduced, and for a \$10 billion reduction in taxes, it should be comparatively simple to reduce various giveaway programs, both domestic and foreign, without deleterious effect on the practical operations of basic programs. As far as these giveaway programs are concerned, I believe in helping only those who sincerely wish to help themselves in a sound manner.

I trust this clears my position in the matter satisfactorily.

In your August 31 Washington report, you ask whether a Congressman should act individually on the merits of each issue, or try to go along to get along.

I think any morally honest man would wish his Congressman to resolve each issue on its merits as to whether it is in the public interest—first, for the Nation as a whole, and second, for his district.

Along these lines you are doing a grand job, and I am all for you.

Sincerely,

CARL C. WEICHSEL.

FMC CORP.,

Houston, Tex., September 19, 1963.

Hon. BRUCE ALGER,
House Office Building,
Washington, D.C.

DEAR CONGRESSMAN ALGER: Have been delayed in answering your letter of September 4 in regard to the tax reduction program of 1963, due to a vacation period. I greatly appreciate this letter and your desire to obtain the feeling of fellow Texans, who are signers of the statement of principles of the business committee for tax reduction in 1963.

I heartily approve the tax reduction program but likewise I am also highly in favor of reducing wasteful spending—and the sooner the better. I feel the economy needs stimulation but likewise Congress must do a better job of controlling spending. I believe Federal expenditures can and must be held at current levels in the immediate future years.

Now, I feel as you do, that is, the present congressional and executive history and attitude toward spending has not been one of planned control or anything approaching rigid spending discipline, therefore, even though many of my associates are opposed, I favor some type of control and an organized plan toward a balanced budget in the years ahead is essential.

Therefore, I favor the tax reduction bill but only on the basis proposed by the Republican members of the Ways and Means group; that is, control over the second phase of the tax cut of \$4 billion planned to take effect January 1, 1965. This proposal to the Ways and Means Committee was outlined in the September 23, 1963 issue of U.S. News & World Report. I appreciate the way you voted on September 10; continue to strive for this amendment or similar amendment that will require—not just “call for” rigid spending discipline.

The amendment proposed by Chairman Mills, of Arkansas, in my estimation, is just a group of “nice words”; we’ve heard too many of them already.

I do not agree with the President’s idea that the proposed amendment is self-defeating. I believe it will demand that the congressional and executive group do a better job of planning and control of necessary expenditures and require the exertion of discipline by the President and most of his colleagues.

In summation, I’m in favor of the tax cut bill of 1963, but only on the basis that it contain the amendment offered by the Republican members of the Ways and Means Committee.

Yours very truly,

W. A. WOLFF,

President, Oil Center Tool Division.

P.S. Have taken the liberty of sending carbon copies of this letter to other Texas congressional Members and also Congressman BYRNES of Wisconsin.

DALLAS, TEX., September 11, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR MR. ALGER: Thank you very much for your letter of September 4, 1963.

While I believe that eventual tax reduction is necessary for the expanding economy

[P. 17131]

of the United States, I am not in favor of any tax reduction without accompanying reduction of Federal expenditures and I thoroughly agree with you in your last paragraph that “confronted with this fiscal picture we are not justified in voting for an \$11 billion reduction in taxes at this time.”

Again thanking you for your letter, I am
Sincerely yours,

ROLAND S. BOND.

FIRST HUTCHINGS-SEALY

NATIONAL BANK,

Galveston, Tex., September 11, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR MR. ALGER: Thank you for your letter of September 4.

The American people are carrying the

heaviest burden of peacetime taxation I believe of any great industrial nation in the world. I have felt that the heavy drain of taxes discourages economic growth and is partly responsible at least for unemployment.

However, as much as I would like to see taxes reduced, I cannot in all honesty say I would like for them to be reduced if our Government will continue to spend more than it receives in revenue. I read the other day that our budget has only been balanced six times in the last 30 years. This is really an appalling thing to me.

I have heard all the Presidents (beginning with F.D.R. in 1932) in campaign promises suggest the desirability of balancing the budget and cutting expenses, but the fact remains that when they get in, they apparently find it impossible or unfeasible to carry out their promises. I believe this is largely responsible for the drain of our gold supply and I think that it is highly important at the earliest possible opportunity, to balance our budget and I think I would put this ahead of tax reduction. I do not feel that merely by cutting taxes can the Government raise more money, although we may have reached the point of diminishing returns in taxation. In any event let me say again, thank you for your letter and I appreciate your writing to me.

I went to school at the University of Virginia and I am a great admirer of Senator BYRD. I believe he has said that he does not want taxes to be cut unless expenses are cut in proportion to compensate for the loss of revenue. I'll go along with him.

With kind regards.

Very sincerely yours,

JOHN W. HARRIS.

THE FORT WORTH NATIONAL BANK,
Fort Worth, Tex., September 11, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR MR. ALGER: I appreciate very much your letter of September 4, setting out your views on a proposed tax reduction in 1963.

I would be opposed to a tax reduction if it were not coupled with some decrease in spending. In a matter of this sort it is difficult to know which should come first. It appears to me that if a tax reduction were voted it would supply a concrete basis for demanding a decrease in the budget for 1964 and future years.

Of course, I am hopeful that any tax reduction would bring some stimulation of business with a consequent increase in governmental revenue. This is difficult to evaluate, but I do think it might be worthwhile to determine the benefits along this line.

To sum it up, I would be greatly opposed to continued large Government deficits, but the tax burden has become so oppressive that I would be willing to try some reduction and hope expenses could be reduced accordingly.

Very truly yours,

LEWIS H. BOND,
President.

TEXAS POWER & LIGHT Co.,
Dallas, Tex., September 10, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR BRUCE: Thank you for your letter of September 4.

I do think the economy would be materially stimulated by a tax reduction. Taxes are so high as to preclude many people from going into ventures on any kind of a basis, and this cannot help but contribute to unemployment and to a diminution in business activity that would otherwise be forthcoming.

On the other hand, I am not in favor of a tax reduction until such time as we are able to make some important reductions in our spending program.

With best wishes.

Yours sincerely,

W. W. LYNCH,
President.

THE FIRST NATIONAL BANK
OF AMARILLO,
Amarillo, Tex., September 10, 1963.

Congressman BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR MR. ALGER: I have your letter of September 4 regarding the contemplated tax reduction. It seems to me it would be folly to reduce taxes under the circumstances. I think every effort should be made to reduce expenditures before taxes are cut.

Sincerely yours,

V. P. PATTERSON,
President.

GREAT WESTERN LOAN & TRUST Co.,
San Antonio, Tex., September 13, 1963.

Hon. BRUCE ALGER,
House of Representatives Office Building,
Washington, D.C.

MY DEAR MR. ALGER: I appreciate very much your comments of September 4 before my arrival in Washington, and I concur wholeheartedly with your remarks, even though I did go along with the committee for the immediate tax cut, after realizing that the same Congress who would enact the cut would make the appropriations. It is the control over Government spending that is the important thing, and you in Congress have the power to control it.

However, I realize full well that we, your constituents, must first cease demanding from Government that which we can ill afford. I made the observation while there that the pork in the barrel loses the savor when we begin to recognize the aroma of our own hog.

I want to commend your stand and thank you again for your observations.

Sincerely,

E. M. STEVENS.

BANK OF THE SOUTHWEST,
Houston, Tex., September 10, 1963.

Hon. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR SIR: I was pleased to receive your letter of September 4, relative to my listing as a signer of the statement of principles of the business committee for tax reduction in 1963.

I am in favor of tax reduction. I feel that present rates are confiscatory; that restrictions on business deductions, expense accounts, etc., represent an antibusiness attitude on the part of the administration; and that the entire tax structure is too complicated and severe.

However, I do not want reduction at the expense of the type of administration proposals of tax reform that take away the benefits of reduction. At some time we should call a halt to tax reform for a few years and let the American taxpayer attempt to understand the law and its requirements, allowing him to adjust himself and his business to them, if possible.

But foremost I am opposed to tax reduction unless there is at least a comparable reduction in Federal spending, in giveaways, foreign aid, and the like. To me, it is economic idocy—and will lead to economic chaos—to do otherwise.

I hope that I have answered the questions posed in your letter in sufficient detail. I am pleased that you are a Congressman representing a Texas district and wish that Texas had more such representation.

Sincerely,

A. G. MCNEESE, Jr.,
President.

DALLAS RUPE & SON, INC.,
Dallas, Tex., September 9, 1963.

HON. BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: I have read with great interest your letter of September 4 seeking my views about the merits of the proposed tax reduction bill. A reduction in taxes would in my opinion act as a strong stimulus to business, plant expansion and employment, and for such reason is highly desirable at this time, on condition, however, that it be accompanied by a compensating reduction in Federal expenditures. If a tax reduction would force the administration and Congress to reduce expenditures, the bill would have a salutary effect upon our economy. If, on the other hand, wild deficit spending for nonessentials is to continue at the present rate or at an accelerated rate, taxes should not be reduced. I hold strongly to the view that this Nation, like each of its individual citizens, should live within its income in time of peace. The liberal economists hold different views.

Undoubtedly, high individual and corporate taxes have discouraged and are continuing to discourage economic growth in our country. Deficit spending, on the other hand, is having an even more deleterious effect. Commonsense, if there is any left in this Nation, would dictate a reduction in taxes accompanied by a reduction in governmental expenditures.

My participation in the activities of the Business Committee for Tax Reduction in 1963 is dictated by a desire to reduce taxes and expenditures—not just to reduce taxes.

I hope that I may have the pleasure of seeing you again when you are back in Dallas.

With personal regards and best wishes, I am

Sincerely,

DALLAS GORDON RUPE,
President.

REPUBLIC INSURANCE Co.,
Dallas, Tex., September 4, 1963.

Congressman BRUCE ALGER,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN ALGER: There has been quite a good deal of discussion about the increasing cost imposed upon taxpayers by our Federal Government. I would presume that you, as one of our Representatives, would be anxious to cut back authorizations and appropriations in view of the President's

[P. 17132]

strong determination to put through a tax cut.

Certainly any cut in taxes should be offset by a reduction in authorizations and appropriations.

As a matter of information, I would appreciate your views on this subject.

Sincerely yours,

RUSSELL H. PERRY,
President.

FORT WORTH, TEX.,
September 10, 1963.

HON. BRUCE ALGER,
House Office Building,
Washington, D.C.

MY DEAR CONGRESSMAN: Re your September 4th letter about proposed tax reduction:

Reducing taxes without reducing spending is actually a deferred tax increase because it is adding to our national debt—and to the carrying charges which must be faced some day or repudiated.

Sincerely yours,

NEVILLE G. PENROSE.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the gentleman from Virginia [Mr. SMITH].

(Mr. SMITH of Virginia asked and was given permission to revise and extend his remarks and to include some figures.)

Mr. DEROUNIAN. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] Seventy-seven Members are present, not a quorum.

The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 154]

Auchincloss	Gray	Powell
Belcher	Gubser	Ryan, N.Y.
Blatnik	Hosmer	St. Onge
Bolling	Jones, Ala.	Shelley
Cameron	King, Calif.	Smith, Calif.
Carey	Long, La.	Steed
Celler	McCulloch	Teague, Calif.
Curtis	Mailliard	Teague, Tex.
Davis, Tenn.	O'Brien, Ill.	Thompson, N.J.
Diggs	Pepper	Whitener

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. ROOSEVELT, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill H.R. 8363, and finding itself without a quorum, he had directed the

roll to be called, when 402 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

The CHAIRMAN. The Chair recognizes the gentleman from Virginia [Mr. SMITH] for 10 minutes.

Mr. SMITH of Virginia. Mr. Chairman, I am well aware that nothing I say here in the few minutes allotted to me is going to affect or change anyone's vote. I think we all realize that this is probably the most important, far-reaching piece of legislation that has come before any recent Congress in which we have participated.

It has troubled me very deeply because, as some of you may know, I am so old-fashioned I cannot reconcile myself to spending more money than I am taking in. I know that is against the theories of the economists. My purpose in asking for these few minutes is merely to state my own position without criticism of the position of anyone else.

I just do not see how this country can survive under any such procedure as we are now following, a continuous rise in the cost of Government, numerous programs presented to us calling for further appropriations, Members of Congress voting for them and passing them in this body and then sending them to the other body to be further increased. How are you going to have any sense of fiscal responsibility under that procedure that is going on right this minute?

Somebody has said that this motion to recommit is a phony.

There is some language in the bill itself on economy. It says:

Congress by this action recognizes the importance of taking all reasonable means to restrain Government spending and urges the President to declare his accord with this objective.

Now if there can be anything more phoney than that, I do not know what it is. What force and effect is there in that language? It does not mean a thing except the pious hope which many of us have expressed here in vain for many years past and everybody who is voting for this bill knows it does not mean anything and it is not going to accomplish anything. And the way that you know it is that you have the proof laying before you on the calendar of this House right before you at this minute. You all know when the state of the Union message came in at the first of the year, there was a long list of new projects and new starts, all of which are going to cost large sums of money. They have been reported by the committees—at least many of them have been. Some

of them are laying in the Rules Committee now and I am being pressured every day to hold hearings and bring them to the floor for a vote. Now contrast that with this pious prayer in the bill. Take a bill that you are all familiar with. You are going to vote to reduce taxes today—\$11 billion. Just 3 months ago you had before you the Area Redevelopment Act which involved a half billion dollars. That bill was thoroughly debated and thoroughly considered in committees of the House by the Legislative Committee and by the Committee on Rules, and it was debated on the floor of this House. It was defeated by a roll-call vote. And here it is back in this same session of the Congress, within 90 days, and you are being urged to vote for it and you will be urged and we will be urged to bring it out of the Committee on Rules again and put you under pressure to vote for it out a second time. Does that look like economy? I have here a list—a partial list at least of the new projects. And while we get this pious prayer in this bill, not one of those projects has ever been taken out on the ground that the economy of the country could not stand it. Have they? Do you know of anything that has been pulled back out of the budget? No, you do not. And you are asked to vote for everyone of them. And you are going to vote for a tax bill here. You are going to vote in this motion to recommit for the only opportunity that you will have to express yourselves in favor of something that we hope has some teeth in it, however phoney you say it may be. It is the only vote that you will cast on this bill that will show you desire to do two things. One is to give to the country the much needed tax reduction bill that everybody knows we need and that everybody wants. The other opportunity you will have is to bring your expenditures somewhere within the area of your intake. Now, is that too much to ask? Why are advocates of this bill so adamant in not putting anything in the bill in the way of new language that might have even a moral effect on the Congress of the United States? After all is said and done, the President cannot spend a dollar's worth of money unless you appropriate it here in this House. The Congress has to appropriate the money and the President cannot spend it unless you appropriate the money.

I know all of us talk about economy, and I think really everybody in this House is for economy and is for reducing expenditures, provided they are reduced in somebody else's congressional district. Now, unless we have some serious reformation in this House as well as in the

administration, you are going down this road to insolvency, to fiscal irresponsibility, and unless you have something that may tie a moral responsibility in to reduce some of these unnecessary expenditures, that is the road we will travel. I say unnecessary because we are in a time when this country never enjoyed the degree of prosperity that we now have. The stock market is booming and all the wheels of industry and business activity are turning and everybody is making money. Yet you want to spend more money for these various unnecessary projects, and you just cannot do it and retain a solvent government, a solvent dollar, a good balance of payments, and keep your gold reserve up.

Those things are vital, not just today but they are vital for the future.

My friends, what are we thinking about? I want to include with my remarks some figures I have gotten up on the things we have been asked to do this year in the new budget and that have come out of committees. They aggregate—and they are not a complete list—\$3 billion of new expenditures and new projects. Over a 5-year period the projected figure shows they will aggregate \$17 billion. What are you going to do when they call the roll again on area redevelopment? What are you going to do when they call the roll on all of these other expenditures that are going to give you an unprecedented amount of spending in peacetime? What am I going to do? I am simply going to do all I can do. I am going to vote for the motion to recommit, because it is the only expression that we can give in this regard. If that is phony, it is less phony than the bill itself, and if that fails, I expect to vote against the bill, because I just cannot see reducing taxes and increasing unnecessary expenses at the same time.

[P. 17133]

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Iowa [Mr. SCHWENGEL].

(Mr. SCHWENGEL asked and was given permission to revise and extend his remarks.)

Mr. SCHWENGEL. Mr. Chairman and Members of the House, I realize the spot I am in at this time, following a man who has so much respect in the House and a man who elicited so much wisdom that we ought to think on. It is indeed a challenge. I rise now with a sense of hesitancy, my friends, but with a deep sense of urgency.

Because, Mr. Chairman and Members of the House, today we are considering

Major new Federal expenditure programs proposed by executive department for inception in 1964 fiscal year

[In thousands of dollars]

Program	1964 appropriation request	Estimated 5-year appropriation requirements ¹
Aid to education.....	\$1, 215, 170	\$5, 341, 360
Aid to medical education.....	34, 352	405, 152
Maternal and child health.....	19, 450	267, 085
Mental retardation program.....	6, 050	131, 270
Mental health centers.....	-----	349, 015
Land and water conservation.....	25, 000	616, 234
Youth employment.....	100, 000	1, 160, 000
Urban mass transportation.....	100, 000	900, 000
Military pay increases.....	900, 000	5, 888, 000
Civil defense shelters.....	195, 000	2, 115, 000
Rural housing: Salary and expenses.....	5, 350	24, 671
Comparability pay increase.....	200, 000	(²)
Domestic Peace Corps.....	5, 000	(²)
Rural housing credit insurance fund.....	100, 000	(²)
Defense food stockpiling.....	30, 000	(²)
Payments for military service credits:		
To OASDI.....	63, 400	(²)
To railroad retirement.....	11, 658	(²)
Total.....	3, 010, 430	17, 197, 787

¹ Estimates shown of total 5-year appropriation requirements are from the Bureau of the Budget except in instances of youth employment and urban mass transportation, wherein the 5-year estimates are extensions of the 3d-year levels of authorizations in pending bills establishing these programs.

² Not available.

NOTE.—Total appropriations and other obligational authority proposed in the administrative budget for the 1964 fiscal year are \$107,900,000,000. This is \$4,700,000,000 higher than corresponding new obligational authority for the 1963 fiscal year. The \$107,900,000,000 figure represents a 33.3-percent increase (\$27,000,000,000) over the \$80,900,000,000 of requested new obligational authority in the 1962 fiscal year budget as submitted in January 1961.

the most important piece of legislation that will come before this body this session. There are many aspects of this tax bill that are desirable, indeed are needed. However, there are other aspects that need to be more carefully considered.

FURTHER STUDY AND APPRAISAL AS TO ITS EFFECTS

Before I begin, Mr. Chairman, may I take this opportunity to commend my colleagues, the gentleman from Wisconsin [Mr. BYRNES] and the gentleman from Missouri [Mr. CURTIS], on the fine statements they have made on this tax proposal. Both of these men are to be congratulated on the fine public service they have rendered while discussing this important matter on the radio and television programs recently and for many other constructive suggestions they have made from time to time.

Mr. Chairman, may I address myself to what I feel is the No. 1 threat to our economy posed by the tax bill. Regardless of what many people, including some of our top economists, think, I maintain

that inflation poses the greatest single obstacle to the country's finally realizing the benefit of a tax cut. A tax cut without ironclad assurances that inflationary forces will be brought under control by this bill cannot do anything but lead this country down the road of another period of spiraling prices and the resulting decrease in the purchasing power of an individual.

Now, today, more people are dependent on the medium of exchange we call money than ever before. It is the obligation of Government, of business, of labor, of all our people to be constantly alert to the terrible threat to our economic system that inflation presents. Indeed, the future of our system of government may hinge on the control of inflation.

In my opinion this bill presents not one but many threats to continued inflation. A number of my colleagues and fellow House Members have already commented and others no doubt will be elucidating further on this topic. Some will treat it incidentally, others casually, but many of us hold it as the major issue for consideration in this bill. May I point to the inconsistencies of the administration's own advisers in reference to inflation, as was pointed out by the gentleman from Missouri, Representative CURTIS, in his nationwide TV speech last Saturday night. Dr. Heller, when questioned by the members of the Ways and Means Committee, stated that the bonds which would have to be sold to finance the tax cut and the resulting deficit in the budget should not be bought by the people and the businesses of this country since this would dampen the effects of the tax cut, would only take from the taxpayers the money they had retained as a result of the tax cut and place it in bonds, therefore, defeating the purpose of the tax bill.

Instead, Dr. Heller proposed that most of the bonds should be purchased by the Federal Reserve System. William McChesney Martin, Chairman of the Federal Reserve System when asked about the results of the purchase by the Federal Reserve System of these bonds stated that this could unloose inflationary forces that would defy control.

Several years ago after a considerable study in these very Chambers I delivered a series of speeches on inflation and its effect. My slogan then was "Hold the line in '59." Today, I say, "Let us not flee from our responsibility and inflate no more for '64."

Permit me to quote from a book by W. H. Hutt. He says:

People are very slowly awakening to the truth that inflation is an act of government

and that it is almost always (in these days) the consequence of calculated, even if reluctant action.

Fellow House Members, the incredible thing about this tax cut is that the administration while attempting to cut taxes will not accede to a request that at the same time Government spending be held down. In the last 4 years Government spending has increased at the rate of \$5 billion a year. Our public debt has increased on an average of \$8.5 billion a year. The combined effect of an increase in Government spending and debt and tax cut would make available to the spending public an almost inexhaustible source of money to purchase goods and services. In the end the demand would be greater than the supply and the resulting increase in prices, the resulting inflation would be then directly attributable to Government action, cool, calculated and seemingly not reluctant action that we here are being asked to make.

Fellow Members, we must not forget that we have in excess of 17 million people in the United States today who are living on either public or private pensions. Monthly benefits of these pension plans total more than \$1 billion. The effects of inflation on the incomes of these who live from these pension plans would be disastrous. A number of other problems also arise. We would be asked again as we have been in the past to increase monthly benefits to those under such plans, thereby increasing the already high cost of those programs. This also would be an added cost of such a tax cut that is being proposed now.

Using just these few examples and citing these few statistics, it can be seen rather clearly that if Government spending is not cut or at least held at the present level, in the long run this tax cut will not provide a stimulus to our economy but would lead to its further decline: that this tax cut aimed at putting money into the taxpayers' pockets would in the end result in costing the taxpayer money and even more important would raise his cost of living which we know never seems to come down once its gone up.

Now let us look a little more closely at this inflation problem. Inflation as we know it is a cancerous disease, a cruel tax, the consumers deadliest enemy. It erodes wealth, destroys financial assets and unless it is controlled it can ruin our Nation.

If inflation is allowed to run unchecked it can lead in only one direction—to the destruction of our system of free competition. This tax bill is an in-

vation to rising prices, an invitation to uncontrolled credit and currency, an invitation to inflation.

The ultimate reaction to such conditions would be drastic action on the part of the Government.

But what would be the forementioned conditions? We all know that the purchasing power of the dollar has dropped tremendously since 1939. In the nearly 25 years since then the value has been reduced to 45 cents. When we look at the cost of living since 1939 we find that the cost of food has risen 163 percent, rent about 69 percent, and services about 94 percent. If the present tax bill is adopted without the necessary curbs on Government spending these figures

[P. 17134]

could become even larger and the value of the dollar could drop even lower.

As we look at this situation even more closely we find that what a dollar could buy in the 1947-49 period would now cost \$1.31. Medical costs have contributed to a major portion of this increase. These costs, so often a burden on older people, have risen 69 percent from 1947-49 to July, 1963.

Food is up 25 percent, housing 35 percent. By passing this tax legislation in its present form we would only inflate these figures.

Today we have almost 17 million older citizens in our country which is between 9 and 10 percent of the population. By 1980 we can expect to have 25 million persons aged 65 and over.

A person who had a pension of \$150 a month in 1940 finds that today this pension can purchase only \$68 in goods and services. We have taxed his income to the tune of \$82 per month.

Mr. Chairman, when we take action on this tax bill these are figures, more important, these are people we cannot forget. After all it is the retired people, the people with fixed incomes that are hit hardest by effects of increased inflation. We could perform no greater service to these retired and aged people, medicare included, than to give them a stable dollar and the assurance that it would stay such. Today we have over 18½ million people receiving monthly checks totaling in excess of \$1.2 billion under the old-age, survivors, and disability insurance under the Federal social security system. The average payment per month under this system amounts to only \$76.63 despite the fact that these payments have been raised as the result of the inflationary spiral. In comparison, at the end of 1940 there were only 150,600 retired people living on

OASI benefits, and, think of it, payments were only \$21.94 a month.

But let us not confine ourselves to the problems inflation presents to the retired segment of our population.

As we look at income figures we find that one-fifth or 20 percent of all spending units, mainly families, living together who pool their incomes had less than \$2,170 before taxes. Three-fifths or 60 percent had incomes of less than \$5,820 before taxes. It is not hard to imagine or picture what effects inflation would have on the living standards of those people. We, supposedly the richest nation in the world, must maintain an economic system that will insure our citizens the opportunity of earning an income that will be adequate for their needs, that will give them needed feelings of dignity and decency. By passing this tax legislation we are doing exactly the opposite. We are closing the door to this opportunity, we are taking away that right.

Consumer prices have risen steadily this year. In July the Consumer Price Index, using the 1957-59 years as a base period, reached 107.1, a 31-percent increase above the average in 1947-49.

In August of this year the average weekly wages of production workers stood at \$98. This is nearly four times higher than the 1946 figure of \$24.96. But in this time food costs have risen over 2½ times. Housing costs have risen more than 60 percent, clothing and transportation costs have more than doubled and medical costs have gone up astronomically. All of these tend to negate the effects of salary increases. The escalator clause in many union contracts, an ingenious provision to help ease the effects of inflation, does not cover enough workers. Wages of other non-unionized people have not kept pace with the well organized. Certainly all of these people are acutely aware of the dangers of inflation and how it would affect them. Certainly, they should be the first to speak out against a proposal such as this one is that would only erode even further the purchasing power of their income.

By the same token inflation plays havoc with teachers' salaries, with farm income, a problem that confronts Congress every year.

Let us for a minute turn to the effects of inflation in the area of bank deposits, insurance policies, and savings and loan investments.

U.S. citizens in good faith have purchased this protection for the future. They have had a long-range perspective and have invested to augment retirement income, to pay for the education

costs of their children, to travel, to prepare for the proverbial rainy day.

Today's 112 million policyholders are going to be faced with a problem something like this: Suppose you had taken out a term life insurance policy valued at \$1,000 in 1948. Ten years later, the purchasing power of those thousand dollars would have shrunk to about \$830. In other words, the robber inflation took as his plunder \$170 of your money.

Just as the value of a life insurance policy has dwindled with the advancing scourge of inflation, so the value of bonds has drastically fallen. Bond owners have lost 52.1 percent of the purchasing power of their bond interest since 1939.

For the man-in-the-street, the U.S. E-bond, available in small denominations, is a favorite.

The U.S. Government has outstanding \$38.2 billion of series E-bonds. Now then, Mr. Chairman, Americans are rightly urged to be patriotic, to support the aims and goals of their Government by subscribing to U.S. bonds. But what has inflation done to investments in U.S. bonds? Inflation has destroyed their value.

Let us give a graphic example of the effect of inflation in investments in U.S. savings bonds. Suppose you had invested \$750 in a Government bond in May 1942 to mature in May 1952 at a value of \$1,000. The effective interest rate was 2.9 percent compounded semi-annually. What happened to the value of your money in these 10 years? Between May 1942 and the corresponding month 10 years later, consumer prices had skyrocketed almost 63 percent.

You actually lost money by making this investment—an investment in the finest system of government ever given to mankind. When we figure the buying power of these dollars, we find that the \$1,000 in May 1952 could buy less than the original \$750 in 1942. As a matter of fact, those \$1,000 had shrunk to a value of only \$614 in 1952.

This loyal citizen not only lost his interest but has lost on the principle.

There are several other media of savings in addition to those I have already mentioned. One of the most popular today is the savings and loan association.

Inflation has attached the assets of the 20 million members of these savings associations. Savings accounts in savings and loan associations currently are valued at more than \$42 billion. In 1940 there were under 7 million membership accounts totaling only \$4.3 billion. Think of the vast expansion in investments in savings and loan associations. And think of how inflation has robbed

and is robbing the owners of these accounts.

This is the tragic tale of what has happened in the past—of how financial assets of millions upon millions of people have shrunk and shriveled. What then is the advantage of saving? What is the advantage in thrift? What is the value of the solid old-fashioned American virtues which helped to make this country great?

The eroding, the almost rotting away of these investments, is a crime against the American people. This tax bill would perpetuate this crime, indeed it would increase its magnitude.

Mr. Chairman, I ask, what of the future? The snowballing of living costs and attempts to catch up with spiraling costs have only one outcome—economic ruin.

As we have seen, significant and growing numbers of our citizens have been caught in the cruel squeeze of inflation. Mr. Chairman, we must contain inflation. When we speak of meeting the threat of inflation by taking effective action, I am sure that first and foremost the question of the Federal budget comes to mind. This Nation must learn to live within its means. I am well aware that by far the largest item in the national budget is defense. The process of inflation has skyrocketed costs of armaments, just as all other costs, to unprecedented highs.

Inflation is truly the most vicious of vicious circles. As inflation has pushed up costs of arms, the expanded Government expenditures necessary to meet rising defense costs pump funds into the market place, thus increasing the circulation of money and thereby helping to boost prices.

The Federal Government must take all necessary steps to squeeze the water out of all defense spending. We must be sure that we are getting a dollar's worth of defense for every dollar spent. Waste of the defense dollar is a criminal offense against the American taxpayer.

Furthermore, unnecessary programs must be eliminated entirely from the budget. Certain other Federal programs may be postponed until a later date when we may hope that an easing of world tensions will allow for reductions in the enormous burden of military expenditures.

Mr. Chairman, I repeat, an unrestrained inflation is eroding the foundations of our economy. We must put an end to words and act now to contain this destructive process.

[P. 17135]

Farmers also have stake in this tax program. The farm problem has be-

come an unwanted American tradition and one of which we cannot boast. In 1962 the per capita farm income was \$1,436 while the per capita nonfarm income was \$2,445.

Farm costs in the last 15 years have skyrocketed. Prices have not risen in comparison. When we look at the party ratio, which indicates the relationship between the prices received by the farmer and those he must pay out, we find the record high of 123 recorded in 1946 has dropped to 78 in August of 1963.

This, my friends, explains to us in no uncertain terms how the farmer has fared during these postwar years, which, on the whole, may be regarded as lush and prosperous. The position of the farmer has deteriorated more seriously than that of any other economic entity in the Nation.

Part of the trouble, which Congress has been reluctant to recognize, lies in the fact that we put the farmer into a production program designed for war-time needs and have not seen fit to free him from this treadmill during these years of peace.

We have, however, taken delight in playing politics with his welfare. We still want to regiment him: tell him what to grow, how much to grow and how much he can expect to get for his efforts. If we were just as adept at putting the same type of controls and regimentation on the inflationary forces which rob the farmers as they do everybody else, the farmer's economic position would be stronger today.

Playing politics with anyone's welfare is a deplorable practice. We are abusing the blessings of representative government when we do it. We would be carrying out our obligations to our constituents and to the Nation in a more statesmanlike manner if we were to direct our energies into those channels which will curb the inflationary spiral.

What can we do to control inflation? What can we do to protect the investments of the thrifty and the income of those who are least able to escape the toll of inflation? The most important action we can take right now to do this would be to oppose this tax bill. Here is one way that we can show that we are willing to do what is necessary to control inflation. Here is one way we can demonstrate that we have the maturity to deal with these problems constructively.

Mr. Chairman, when we act on this bill we are in effect determining the fate of all the people aforementioned, the retired, the investor, the teacher, the farmer, the laboring man.

Let it not be said of us that we acted without regard to these people.

Let it not be said that we callously contributed to an inflation spiral of prices.

Let it not be said that we contributed to the eventual breakdown of American currency.

Rather, let it be said that we acted to protect our people.

Let it be said we acted to protect our dollar.

Let it be said we acted to prevent inflation.

Let it be said we acted responsibly according to the dictates of our consciences, and let us hope and pray history will prove us right.

Based upon what I have heard, read, and thought on in regard to this proposed tax bill, I will vote against it. If the recommittal motion carries, I may vote for it. But I would prefer voting for a straight recommittal motion so that the Ways and Means Committee can give further consideration to disastrous threats of inflation in this bill.

Mr. Chairman, I should like to say this further. Historically, as I read the history books, the Ways and Means Committee of the House of Representatives was established and given the responsibility to find ways and means to pay the bill that Congress has presented.

Today it seems that the Committee on Ways and Means has lost sight of this. Indeed, there is much evidence to show that it has become a Ways and Means Committee to show us how not to pay the bills.

Mr. UTT. Mr. Chairman, I yield such time as he may consume to the gentleman from Massachusetts [Mr. CONTE].

(Mr. CONTE asked and was given permission to revise and extend his remarks.)

Mr. CONTE. Mr. Chairman, under the able tutelage of the gentleman from Arkansas [Mr. MILLS], I would like to state that I will vote for final passage of the tax bill although I am deeply disappointed with numerous portions of it.

In short, it does not seem to me that the bill will be a great boon to the so-called little man who is not a myth in American life but a living reality whose weekly paycheck just barely enables him to support his family. This little man is big in the American framework of both national goals and our strength as a powerful country.

What we are doing is throwing him a bone under the guise of saving him a few dollars annually. Given the continuing mounting cost-of-living increases—and the most recent figures indicate that it cost 28 percent more to live now than in 1950—this is not manna from 1600 Pennsylvania Avenue.

I do not feel, to be quite frank, that this bill goes, to use the title by Graham

Greene, to "the heart of the matter." It does not meet the real needs as they exist in the Nation.

Few things, for example, are more important to the average American family than the education of their children. Few things are more expensive, either, in these days of spiraling tuition costs, which have increased 86 percent in the last decade.

I have had a bill before this Congress which is specifically designed to meet this crucial problem. It should have been incorporated, as I requested on a number of occasions, into this bill.

I have repeatedly stressed the financial burden of parents sending their children to college and have legislation that would have the Federal Government allow a tax deduction of up to \$1,000 a year for the college expense of each child, while this is the basic provision of the bill, it will actually do more. A taxpayer, for example, could have this same deduction for his own college expense and those of his wife. If he has more than one dependent in college at the same time, as many people do today, a credit for each of them would be available.

With the average college expense for the student living away from home now exceeding \$1,700 a year, and private schools costing \$2,500, the necessity of this legislation is paramount. The largest single reason for students in the top 30 percent of their high school class not continuing in college are these fantastic expenses. If this provision for a tax deduction had been included in the administration bill, there is no telling how much value it would have had to the Nation.

I am also in favor of raising the regular \$600 exemption for each child to at least \$800. This gesture would still be unrealistic in view of the astounding costs of food, clothing, and other normal expenses for the child, including ordinary medical expenses. Faced with these mounting expenses, the average family finds the dollar almost cut in half. Consider, if you will, the family with a combined income of \$5,000 a year, with three children to raise, and the expenses noted above. It is well nigh impossible for this family to live.

For these reasons, Mr. Chairman, this bill is, in many respects, one that overlooks the average American family.

And for this reason, as well as the ones enumerated above, I am disturbed with this bill.

And my disappointment has nothing to do with the distinguished chairman from Arkansas. I believe him when he says that he is sincere in hoping that

spending will be kept down. In his eloquent speech on the floor yesterday he said that there were "two roads that the Government could follow toward the achievement of a larger and more prosperous economy." One of these roads, he said, was through the area of economy in Government expenditures.

He also said:

There is no further justification for an indifferent attitude toward wasteful, inefficient government activities, merely because they gave unemployment—there is no justification for half-hearted efforts or outright failure to eliminate Government programs that have outlived their usefulness just because they also contribute to the total spending stream of the economy—

And so forth. I believe the distinguished gentleman when he says this but I cannot believe that a great number of my colleagues will not keep on spending, and spending.

In this respect, many of the economy measures mentioned by the chairman should have been written into the bill.

I am hopeful, however, that with the passage of this bill the economy will be given a solid boost and allow a breath of fresh air into the free enterprise system. I agree with the chairman that the present tax rates, imposed during World War II to insure equality of sacrifice as part of our price control measures, are in need of revision.

I am also aware that the distinguished chairman and his committee feel that

[P. 17136]

passage of this bill will create new confidence in the private sector of the community by giving the free enterprise system the opportunity to develop anew. I could not ask for, or hope for, a better solution. Thank you.

Mr. UTT. Mr. Chairman, I yield such time as he may consume to the gentleman from California [Mr. BALDWIN].

(Mr. BALDWIN asked and was given permission to revise and extend his remarks.)

Mr. BALDWIN. Mr. Chairman, I rise in opposition to H.R. 8363 in its present form, and in favor of the motion to recommit which is going to be offered by the gentleman from Wisconsin [Mr. BYRNES].

I do not believe it is for the best interests of our country to pass this bill, unless some offsetting limitation is placed on the steady increase in Federal expenditures. If a tax cut is made, while Federal spending continues to increase, we will have to borrow money to give ourselves the tax cut. I do not believe this is either prudent or wise.

The Treasury Department estimates that our Federal deficit in fiscal year

1964 will be \$9.2 billion and in 1965 will be \$10 billion. The interest alone on the bonds which must be issued to offset this addition to our National debt will exceed \$633.6 million per year.

For these reasons, it seems to me inappropriate to vote ourselves a tax cut without setting any specific ceiling on Federal expenditures.

Mr. UTT. Mr. Chairman, I yield 20 minutes to the gentleman from New York [Mr. DEROUNIAN].

(Mr. DEROUNIAN asked and was given permission to revise and extend his remarks.)

Mr. DEROUNIAN. Mr. Chairman, this has been an interesting 2 days. It just goes to prove that 9 years can make a difference.

Yesterday, Mr. Chairman, the member of the Rules Committee, the gentleman from Missouri [Mr. BOLLING], was "completely shocked," according to his statement, "by some of the language which appears in the minority report." He told us that he was further "shocked" because the names of "two distinguished gentlemen appear as signatories of that report."

Mr. Chairman, let us go back to 1954 and read the minority report, which was the Democratic minority views, on the tax reduction bill of 1954, and I quote:

Attempts are being made to hoodwink the public by talking about the great relief which is being given the average taxpayer and the average family. We defy anyone to find such relief in this bill. It is nothing more than an insult to the intelligence of the average person to claim that he is being benefited by it. The average taxpayers that are benefited are literally few and far between, and the relief provided in these few scattered instances is negligible.

I guess the gentleman from Missouri was not shocked by this language nor by the signatories to it, the present chairman of our Committee on Ways and Means, the gentleman from Arkansas [Mr. MILLS], the gentleman from California [Mr. KING], and the gentleman from Illinois [Mr. O'BRIEN].

I was also interested yesterday to hear my beloved chairman of the committee, the gentleman from Arkansas [Mr. MILLS] talk like a Republican. I hope it sticks, because he said then:

I can assure you that there is no one more interested in holding down Government spending than I and other members of the Committee on Ways and Means who reported this bill.

Mr. Chairman, that is wonderful language. I wish the majority of the members of the Committee on Ways and Means had voted this way in the past, but they have not. I hope they will, but I have to see it before I believe it.

I listened with great interest to one of the great leaders of the Democratic Party, the majority whip, the gentleman from Louisiana [Mr. Boggs]. He was speculating upon whether Mr. Henry Ford was a Republican and he hoped he might be a Democrat. Well, 9 years ago he would not have said this. I am not so sure whether Mr. Ford is a Republican or a Democrat, but I do know this, that following the 1962 campaign the Wisconsin Democratic State Committee had a deficit and Henry Ford and two other members of his family helped eliminate it. That is all right with me, just so long as the record is clear.

Mr. Chairman, it is very strange that the Democratic Party, who used to criticize this type tax reduction as "a trickle-down," and were for an increase in the personal exemption from \$600 to \$700, should suddenly abandon this theory. At this moment we have many millionaires, big business leaders, union leaders, the Kennedy family and the Democratic Party all together; and that is quite a package.

Mr. Chairman, I also noticed yesterday that one of my beloved colleagues on the committee was shedding crocodile tears because the dividend credit is about to expire.

Of course, we know what happened there. We had resisted efforts to knock it out by a 14 to 11 vote in the committee. Then 3 weeks elapsed, during which time the Kennedy persuaders went to work and, believe it or not, two members switched their votes and the dividend credit provision was knocked out in two stages. My father told me if I was for something I ought to vote for it. We Republicans needed one more vote from the Democrats to keep the dividend credit in. So I would suggest to the gentleman who shed crocodile tears that if he had had one more vote on his side, dividend credit would still be with us.

Mr. Chairman, much has been made of the "evil" in the Byrnes amendment. The majority whip, the gentleman from Louisiana [Mr. Boggs], quoted from Mr. Saunders' speech but he neglected to quote from the brochure of "The Business Committee for Tax Reduction in 1963":

The committee believes that a reduction in the 1964 budget is reasonable and practicable. Furthermore, it believes that there is no situation foreseeable which would necessarily require the 1965 and 1966 budgets to increase over that proposed for 1964. We have had large, progressive increases in recent years, and there is no justification for a continuation of the upward trend.

That is foursquare with the Byrnes amendment. In the President's own committee booklet appears that state-

ment, yet we have Mr. Henry Ford and his agents scurrying around lining up votes against the Byrnes amendment. And he is not the only one who has been scurrying around. We know the White House has been active. In fact, I heard today that in certain oil congressional districts throughout the country the oilmen were being called by those people—I am not talking about our committee, this is the executive branch and others—importuning those Congressmen to vote against the Byrnes proposal, otherwise oil depletion would be reduced.

This latter approach for votes is quite serious, is it not?

Why should we believe this Congress is going to control spending when past experience proves otherwise. Mr. George Meany, in his letter to every Member of the House, in the fourth paragraph states:

Unfortunately, it has been suggested that the proposed tax reductions in whole or in part be made contingent upon cuts in Federal expenditures. Quite frankly, if substantial cuts are made in the Federal budget they would totally nullify the beneficial effects of the tax bill by withdrawing from the economy the jobs Federal expenditures create.

If you do not believe the letter, Andrew Biemiller, the chief lobbyist of the CIO, put it more bluntly. He said that it was "hogwash" that Congress was going to control spending; that Government spending was needed to spur the economy.

And let us go to the greatest authority on the subject, the President himself, out in the Middle West where he is making a nonpolitical political trip to 15 States. Yesterday he pleaded for passage of the area redevelopment program and other programs. Do we in the committee want to delude ourselves into believing that we are going to control expenditures without some concrete proposals? There will be a day of reckoning.

Mr. Chairman, in the past three decades the Democratic Party has been in charge of the executive branch of our Federal Government for 22 years and the majority party in the Congress for 26 years. This bill that is now before us, H.R. 8363, is the first and only time, aside from the effort to pass a \$20 tax credit in 1955, that the Democratic Party has taken the initiative in supporting tax reduction during those three decades.

During those three decades we have had a Republican-controlled Congress in two instances and on both occasions meaningful and responsible tax reduction was granted to the American people.

In 1948 the Republican 80th Congress

overrode a Truman veto to provide tax relief in the amount of \$5 billion. The Executive veto and the Democratic minority opposition to this tax cut in 1948 occurred at a time of budgetary surpluses, in 1947 and 1948, totaling more than \$9 billion and created by a sharp curtailment in the level of budgetary expenditures. Mr. Truman vetoed the tax reduction efforts of the Republican

[P. 17137]

majority three times, if I recall correctly, asserting it was tax reduction at the wrong time. He also asserted it was not possible to make a major tax reduction and an adequate payment on the public debt at the same time. Mr. Truman's Treasury Secretary was even more eloquent in his opposition. He said:

It is unbelievable that any tax proposal would be seriously promoted that would produce a budget deficit and an increase in the public debt of \$2.1 billion in the fiscal year of 1949.

The Democratic minority of the Committee on Ways and Means, of which the present chairman was an influential member said, among other things in the committee report:

A balanced budget and substantial debt retirement are essential prerequisites for tax reduction.

Oh, how I wish for those words from him today.

In 1954, the 83d Congress, working effectively with the Eisenhower administration, provided the second tax reduction of the past 30 years. This time the tax cut approximated \$8 billion and was again made possible by sound expenditure reduction leading to subsequent budgetary surpluses.

We have heard rosy forecasts this week both from the chairman of the committee and the majority whip. I recall just about a year ago today the majority whip was telling us during consideration of the Trade Expansion Act that this bill would cause a great increase in employment, that Britain would join the Common Market within 2 months, and where would the United States be if the bill were not passed. The bill was passed, but we are in trouble; Britain is not in the Common Market, and my chairman's chickens are having trouble with the Common Market. I do not criticize the thoughts of the majority whip then, but I say you cannot look at our economic future except realistically.

In the minority views on this tax reduction, the signatories to which included the present committee chairman, the Democrats objected to the fact that the Republicans were engaging in deficit financing. Is not that something for

the books? Remember that this objection came even though the Republican Congress had cut spending by more than \$10 billion and budgetary surpluses occurred in the two subsequent fiscal years, largely because of this spending restraint.

Mr. BECKER. Mr. Chairman, will the gentleman yield?

Mr. DEROUNIAN. I yield to the gentleman from New York.

Mr. BECKER. I should like to make one observation in agreeing with the gentleman's remarks, that on August 8 we had a bill here to increase the debt ceiling to \$309 billion. That was passed in the House by a vote of 221 ayes to 175 noes. Being opposed to this tax bill today, I intend to vote for the Byrnes amendment. I hope those opposed to the Byrnes amendment but for this tax cut, will realize that when the next debt ceiling bill comes up, probably next month, they will have to vote for an increase in the national debt to carry that increased deficit provided in this legislation.

Mr. DEROUNIAN. I thank the gentleman for his observation.

This is the year 1963 and for the first time in more than three decades we are witnessing a serious Democratic bid to reduce taxes by an amount in excess of \$11 billion. The Democrats are in control of the executive and the Congress. How are they doing on those objectives of debt retirement and spending reduction they considered so important in 1948 and 1954, to which I have just referred? Well, let us look at the record.

On January 20, 1961, the Kennedy administration took office urging the American citizens to seek to do for this country rather than asking this country to do for them. That is the last we heard about sacrifice by the present electorate, but implicit in most of what we have heard since is a lot of sacrifice by tomorrow's taxpayers to meet the debts that are not paid today. America is being urged to meet its every problem with borrowed money and apparently because we are not borrowing enough we are going to have a tax cut of \$11 billion.

Let us look at the record some more. When Mr. Kennedy took office in January 1961, the projected level of spending for that fiscal year was \$79 billion; for fiscal 1964 it is \$98 billion, or an increase of \$19 billion in 3 years' time. And next year we are expected to spend at least \$102 billion. The Kennedy fiscal policies have failed to produce a single budgetary surplus despite a \$10 billion rise in Federal tax receipts. The New Frontier-created deficit in 1961 was \$3.8 billion and the total addition to the debt

through the current 1964 fiscal year will exceed \$25 billion for the 4 fiscal years. The deficit in 1965 is expected to exceed \$10 billion. It has been estimated that on the basis of even the administration's own assumptions, our Federal Government will not realize a budgetary balance until 1972 and that, in the meantime, the public debt will increase by \$75 billion.

Whatever happened to the candidate Kennedy who said in Indianapolis, Ind., on October 4, 1960:

I believe in a balanced budget and an honest dollar; in the Federal Government doing only those tasks that cannot otherwise be done.

Whatever happened to the promise in Philadelphia, on October 31, 1960, to the effect that "we are pledged to maintain a balanced budget except in times of national emergency or severe recession."

Mr. Chairman, apparently a naive Congress and a gullible public are to overlook that record and forgive those broken promises as we consider this tax reduction measure. We are to rely on vague generalities about future Government economy and an eventual budget balance as our only assurance of fiscal responsibility, as we vote on this tax bill.

This gives rise to the question: Can we afford the risk? Our balance-of-payments problems are serious, with a deficit at an annual rate in excess of \$5 billion in the most recently completed quarter of this year. With only \$3.5 billion in free gold, we face a potential gold demand in the magnitude of \$20 billion, based on the dollar obligations of foreign interests. The purchasing power of the dollar is now about 45 cents. Under these circumstances the risk of inflation from record spending, \$10 billion deficits, and an \$11 billion tax cut are not to be taken lightly. A strong dollar based on a stable purchasing power is an essential element in promoting economic progress and preserving military strength.

If the President were to pledge himself to curbing expenditure levels for 1964 and 1965 at the \$93 billion level experienced in 1963, I could wholeheartedly join as an advocate of major tax reduction now. If Mr. Dillon and Mr. Heller would retreat from this insistence that 1964 and 1965 spending must be at successively higher levels—the latter year at \$102 billion or more—I could support tax reduction. If the AFL-CIO spokesmen were not quite so confident and knowing in their predictions of continued increases in spending, I would put more confidence in the administration promises of future frugality and the abandon-

ment of profligacy. As it is, I feel it is incumbent upon me to resist tax reductions unless the House adopts some effective control over spending. To that end I will support the motion to be offered later in these proceedings, to limit the occurrence of tax reduction to a situation in 1964 of a spending amount not in excess of \$97 billion and a maximum level of spending of \$98 billion in 1965. Even these amounts I regard as excessive but I hasten to point out that they are only maximums as set forth in the amendment.

Mr. Chairman, the problems that arise from the fiscal implications of this bill are not the only shortcomings of this measure. Also present are the many problems that are found in the substantive changes that are proposed. I do not intend to embark upon a lengthy discussion of these changes. However, I will comment on some of them that I consider inequitable in result and unduly complex in application.

I do not think anyone here has mentioned that one-half billion dollars in present deductions are being taken away, not from the millionaires or big business, but from the small and moderate income taxpayer in the taking of deductions for cigarette taxes, gasoline taxes, and license plate fees. One-half billion dollars. That is one of the sleepers in this bill.

The first substantive change selected for specific reference is concerned with the tax treatment accorded group-term life insurance.

This section 203 of the bill would impute as income to individual employees the value of group term life insurance in excess of \$30,000 that is provided by their employers. Under this novel concept these employees would, for the first time, be taxed on the value of this insurance protection as though it were income received by the employees during that year. This innovation is an opening wedge endangering the long-established policy of encouraging employers to

[P. 17138]

provide such fringe benefits for their employees.

As it stands, this proposal is awesomely complicated and the withholding provisions of this proposal are so complex as to constitute a burden upon employers that may deter the use of group term life insurance.

The present tax treatment of group term life insurance has existed since its development in 1920. Many families' insurance arrangements and estate plans have been built around this traditional fringe benefit. Why for an estimated

revenue of \$4 to \$5 million should we unsettle all these plans that were heretofore fostered? The bill now before this Committee would be a better bill if it were not for this provision.

A second substantive change on which I will comment relates to the provision repealing the 4 percent credit on dividend income. This will serve to discourage equity investment and risk taking, thereby impairing the creation of new and better jobs for our workers now in the labor force and those to come in at a future date. It does not make sense to single out this vital source of expansion capital for double taxation. The repeal provided in the bill of the dividend credit has nothing to recommend it other than the fact that the AFL-CIO has always opposed the credit.

Mr. Chairman, a third substantive change with which I find fault pertains to the changes affecting stock options. The worth and merit of stock options is enhancing managerial efficiency and promoting industrial advance are demonstrated by the fact that stock prices have increased twice as fast for companies with stock options as for companies without them. The President in his original tax message recommended the repeal of the stock option provisions of the Internal Revenue Code. While the committee has wisely rejected this repeal proposal, the bill does include significant changes in the qualifying rules and some of these are unnecessarily stringent and will serve not to prevent abuse but to prevent the effective management of a stock option program.

I am also concerned over the impact of this bill on the tax treatment of employee moving expenses. The provisions of the bill dealing with this subject are characterized as being a liberalization but I am constrained to say that in many respects the provisions fall considerably short of being adequate because of this failure to clarify existing law. In my judgment expenses incident to a change in duty station are a business expense and are deductible under existing law. In this category there should be included ordinary living expenses for a reasonable period as well as losses on sale of property such as a residence. There are conflicting court opinions on this subject and the Commissioner has refused to acquiesce in the decisions that have been pro taxpayer. The committee should have acted to clarify the legislative intent on this matter so that our citizens would not be called upon by the Internal Revenue Service to pay tax on expense amounts that clearly are not income.

Mr. Chairman, the issue now before us is not whether or not tax reduction is

desirable and needed, but the issue is how can it be accomplished in a manner that is not improvident and which does not jeopardize our Nation's future. The instructions in the motion to recommit, to be offered by my able and respected colleague, the gentleman from Wisconsin [Mr. BYRNES], will do much to make tax reduction both feasible and responsible by providing an incentive for spending control. The Congress must adopt such a spending limitation as a condition on tax reduction to overcome the dedicated insistence of the administration spokesmen that the Congress is being irresponsible when it concerns itself with economy.

Mr. BECKER. Mr. Chairman, will the gentleman yield for a question?

Mr. DEROUNIAN. A quick one.

Mr. BECKER. I am glad that you are detailing these inequities, but is it not a fact that somewhere along the line the suggestion was made that this bill ought also to eliminate deductions now in the law for interest on mortgages, real property taxes, and deductions for State income taxes. Was that not one of the suggestions?

Mr. DEROUNIAN. The gentleman is correct. This half a billion dollars is taken away from deductions to replace that section of the bill formerly proposed.

Mr. BECKER. Is it not quite possible with the deficit outlined here in a future year and possibly next year these reforms will also be suggested and enacted into law?

Mr. DEROUNIAN. It could very well be.

Mr. BECKER. Thank you.

Mr. DEROUNIAN. The President apparently fails to realize that America has no wealthy father who can be called upon to pick up the tab for spending beyond a capacity to pay.

The President apparently fails to understand the grave danger to our economic vitality and national strength that will attend successive deficits and endlessly mounting debt. The President seemingly refuses to recognize that the benefits from long overdue tax reductions will be destroyed by any blind refusal to abide by fiscal disciplines that require the elimination of nonessential Government expenditures. Even if the American people were to trust the fiscal judgment of the President, serious question exists over the willingness of the foreigners to whom I referred earlier who hold more than \$20 billion in dollar obligations to share that trust.

In his recent tax speech the President vaguely promised economy and efficiency in the future. In the same speech he

reiterated his demand for more spending for programs that have little or no public support. The President in his hopeful promise on spending and debt reduction is aspiring to an objective that is totally inconsistent with his past actions and apparently with his present plans for the future. By playing loose with our fiscal policy, he is seeking a blank check drawn on the productive endeavors of succeeding generations in total disregard of the intervening dangers to our fiscal solvency.

The President speaks of job opportunities, plant modernization, and increased consumer spending but these purposes will not be realized in the absence of public confidence in Government policies. The only way that meaningful tax reduction can be achieved is through expenditure reduction. The motion to recommit should be adopted and then, and only then, should the bill, H.R. 8363, be approved by the House.

The CHAIRMAN. The time of the gentleman from New York has expired.

(Mr. DEROUNIAN asked and was given permission to revise and extend his remarks.)

LEAVE TO EXTEND

Mr. MILLS. Mr. Chairman, I ask unanimous consent that all Members who desire to do so may extend their remarks in the RECORD on the bill.

The CHAIRMAN. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. UDALL. Mr. Chairman, as I listen to the debate today, and the demands for vague, general, nonspecific reductions in Government expenditures, I wonder whether the proponents of these reductions would be with us when we actually get down to cases. It is all very well to talk about slashing lard and fat—these unpleasant things that sometimes come along with lean meat, bone and sinew—but I strongly suspect that the very people who stand foursquare today for generalized reductions will stand foursquare tomorrow against specific reductions to carry out their own sweeping demands.

My own correspondence in recent weeks from the good people of my district illustrates this point. Some of them have made the point we are hearing today; namely, that there must be no tax reduction without a reduction in the level of expenditures. Mr. Chairman, the detail of the Federal budget is complex and the role of the Federal budget in our economy is not easily understood. I do not mean to be critical of those who have expressed this view, for they are speaking from the facts they have at

their disposal and the impressions they have concerning budgets, deficits and such matters. However, it happens that some of the same people who have written me in this vein have also written me on other subjects during this same period.

A striking example of the unrealistic attitudes of some of my constituents is indicated by a prominent Arizona businessman who in the past 3 weeks has written me urging that I take three separate actions.

First, he urged me to support the Republican motion to recommit on the bill now before us, making the arguments we have heard in this debate for a strict and meaningful limitation on Federal expenditures.

Second, I was asked to do all in my power to restore to the defense appropriation bill the sum of \$60 million so that work may proceed on the mobile

[P. 17139]

medium range ballistic missile. Components of this weapon are made at the Hughes Aircraft Co., plant in Tucson and unless this program goes ahead, there may be as many as 3,000 employees laid off in the coming months. This prospect has alarmed many Tucsonans and I have had dozens of letters urging that, at all cost, this \$60 million be appropriated.

Mr. Chairman, I do not mean to imply that I am not for the restoration of funds for the MMRBM. I am for it. I think this new missile may be an answer to some of our problems in defending Europe and involving our allies in their own defense. I am for it, even though, were it not a loss to our defense structure, I would want to save the taxpayers of this country that \$60 million. But my point is that the very people who say they are for slashing \$10 or \$11 billion from the Federal budget are also urging me to increase Government spending by \$60 million on one particular program of benefit to Arizona.

The third request of my businessman friend is that I do everything possible to pass this year the central Arizona reclamation project.

Mr. Chairman, the central Arizona project is vital to my State's future. We have waited patiently since 1951 for a decision by the Supreme Court, and now that decision has been made. Arizona is entitled to another 1.4 million acre-feet of Colorado River water, and plans must be made to channel that water into the areas of the State where it is vitally needed.

But Mr. Chairman, the central Ari-

zona project is going to be no petty-cash expenditure. It is going to cost money—repayable to be sure—but cash money in an amount totaling approximately \$1.1 billion. It will be a sound investment in physical and human resources. It will add to the wealth of the Southwest and the Nation in the generations ahead. But, nevertheless, it will eventually cost the taxpayers of the United States \$1 billion, and those dollars will have to come from the Federal budget.

It has been my painful duty to point out to the fine gentleman who has written me the communications I have just referred to, that his requests are comparable to suggesting that I stop breathing at once but be sure that my heart goes on beating. If Federal expenditures are to be reduced by any substantial amount, two of the most likely places the Congress will look for reductions would be in first, additional national defense programs about which there is any reasonable doubt; and second, any new or additional reclamation projects.

I am for economy. Make no mistake about that. But I am for the mobile medium range ballistic missile and the central Arizona project, too. I do not think I will gain either by broadax slashes in the Federal budget.

I happen to believe that the Federal budget could be reduced and several weeks ago I made a specific list of the reductions I would make if I had the power to make them. I must say, however, that realistically my reductions are in areas such as farm price supports, space, and similar programs which are not going to be reduced by this Congress. Each Member of Congress has his own ideas, as I have mine, about the priority of specific Federal expenditures and I am sure that each Member has particular reductions which he would make. However, no one Member makes the decisions under our form of government and the kind of joint decisions we make take into account the views of all the Members, as a group.

I believe that the Federal budget can and should be balanced and that we should have an end to the series of recurring deficits of recent years. One of the best ways to reach that goal, in my judgment, is to pass this bill as reported by the Ways and Means Committee without the meaningless restrictions proposed by my Republican colleagues.

Mr. PELLY. Mr. Chairman, I think any Member of the House who votes for H.R. 8363 and this tax cut—under the language of the bill—accepts a personal responsibility to help hold the line when it comes to costly new programs and increased expenditures.

Mr. Chairman, if the press does its job, it will keep a record of those who vote for this bill. Then when other measures, like the area redevelopment bill, are considered later on, I hope a comparison will be made and a list will be published of Members who failed to exercise restraint and instead vote to increase Government spending.

Of course, those Members like myself who support a motion to recommit, with a provision spelling out a limitation on expenditures, have an equal responsibility to hold the line on spending.

But I would emphasize to the membership of the House that this bill contains language to the effect that Congress accepts responsibility for restraining spending.

The American people who are represented by us should see just which ones accept as meaningful that provision of the bill.

Such a comparison will show just who are "phonies" and fail to practice fiscal responsibility or to exercise political morality.

Mr. O'BRIEN of New York. Mr. Chairman, during the last few weeks I have listened carefully to the views of many people on the main issue before us today. When the experts disagree, it is not easy for those of us who claim no more than a sincere desire to reach a decision in the best interest of the Nation.

We are grateful to the experts for their apparent agreement on one premise—that a reduction in taxes would be good for the economy.

But, some say, the reduction should not be authorized without strings. They contend that it should be linked, in advance, to a fixed level of Federal spending during a subsequent fiscal year.

Others insist such an approach is neither fiscal integrity nor economy, but a form of financial legerdemain which would risk a recession for the sake of a dubious 1964 political advantage.

Some of us may have lost sight of the main purpose of the proposed tax reduction.

Advocates of lower tax rates say they will lubricate the economic machinery and, by so doing, increase both the gross national product and total Federal revenue.

If this be so, there is no merit in the argument that a tax reduction without an arbitrary limitation on future spending must result in larger and larger deficits. It is far more likely that deficits will continue ad infinitum unless we readjust tax rates and remove some of the obstacles to the growth of our national economy.

So, we are asked to decide which is the

cart and which is the horse, or whether the chicken or the egg should come first.

In my judgment much of the beneficial impact of a tax cut will be lost if we attempt now to fix the level of Federal spending a year hence.

Where is the elbow room for national growth when he attempt now to pin tomorrow's spending, not upon the needs and requirements of tomorrow, but upon those of today or yesterday?

Why not go whole hog with this clever but specious straitjacket approach? Why not make the second stage of the tax cut contingent upon a rollback to the spending levels of the Eisenhower years—or to the much lower level of the Truman years—or even to those of the Roosevelt, Hoover, Harding, or Coolidge years?

The latter level should have a special appeal to those who see no merit anywhere except in the past, who fear the tremendous national growth of the intervening years. When they look back to that era they see the golden age of American solvency—the economic utopia—the time when hot ticker tape was more important than high paychecks—the era of small government—the glorious period when we had no social security—the era when we accepted the county almshouse as a fitting end of the road for those who labored most of their lives to break even.

Of course, some might be so unkind as to remind us that those dear, dead days, were followed by the deepest depression of our century.

I suggest that the amendment which divides us today would transform a tax reduction bill, desired by an overwhelming majority of the people of this country, into a job reduction bill. And may I register a doubt that anyone will appreciate a tax cut on a nonexistent income.

There are indications that some who ridiculed the proposed tax cuts as "cigarette money" are willing to vote for them now if we incorporate a built-in recession risk which could cost many both cigarette and food money.

Some who talk darkly of Federal bankruptcy unless we wed tax cuts with what they deem to be deficit insurance quite cheerfully run advertisements in our newspapers urging upon their customers the dollar down plan for everything from toys to tractors. Apparently, Federal spending in excess of annual receipts, even if it be largely for military purposes and the welfare of millions of people, is

[P. 17140]

immoral, while private spending in excess of income is just good business.

It is necessary for some of us, who do

not pretend to be financial geniuses, to pick and choose among the experts among us.

I have made my choice. I am ready to follow such an expert. He is known to all of us as one of the most respected Members of this or any other Congress.

Several days ago, there appeared in a newspaper published in my community the following brief editorial:

CUT THAT TAX

We favor the administration's tax cut bill. President Kennedy is correct in declaring that such a cut is needed to stimulate the economy and avert the threat of a business recession.

There can be no doubt that the release of vast amounts of funds into the economic bloodstream—funds otherwise destined for the tax collector—would be anything else than a thumping shot in the national financial arm.

We urge that no political partisanship be brought into play in consideration of this bill. Representative WILBUR D. MILLS, the conservative and careful chairman of the House Ways and Means Committee, has pressed for tax reduction—and he is not the person to be swayed by the mere accident of party affiliation.

Let's hope therefore that Congress passes this bill handily. Lots of take-home pay envelopes, business profits, and job openings could depend on it.

I agree it is desirable that "no political partisanship be brought into play in consideration of this bill."

But, let us assume a degree of partisanship on both sides.

What would be the motive of the purely partisan on the side which advocates a tax cut period?

Would it not be the belief that a tax cut would create a favorable economic climate and that such a climate would help their party? But, would not the general public benefit from such a climate?

And what could be the motive of the seeker of partisan advantage on the other side, the side which would apply a drag anchor to the tax cut?

Could it be the hope that the cut, so hampered, would create less than a favorable economic climate and that this would hurt the party in power?

Undoubtedly it would, but the hurt also would be felt in the homes and the businesses of the whole population.

But, surely, none could be that bitterly partisan. I prefer to be idealistic and to assume that the experts on both sides are sincere, although both sides cannot be right.

So, I must choose the experts in whom I have the most confidence.

Permit me to requote one sentence from that editorial in my home city newspaper, a publication, incidentally,

which is not too enthusiastic about my party.

Here is the sentence:

Representative WILBUR D. MILLS, the conservative and careful chairman of the House Ways and Means Committee, has pressed for tax reduction—and he is not a person to be swayed by the mere accident of party affiliation.

So be it.

I intend to follow the leadership of the distinguished gentleman from Arkansas in this matter. He is known in this Congress and throughout the Nation as a prudent man, a cautious man, a careful man who knows what happened yesterday but thinks in terms of what is happening in this century and this decade.

I intend to stand or fall on this difficult question with a great Congressman, the gentleman from Arkansas, WILBUR MILLS, calmly confident that no man here or elsewhere can lay a glove on his integrity and that no other expert to whom I have listened even approaches his solid knowledge of tax measures.

Like the gentleman from Arkansas, WILBUR MILLS, I look forward to the time when we can handle our mountainous problems without incurring deficits. Like him, I shall support proper economy in government.

But, I am convinced that the fiscal wedding proposed by the gentleman from Wisconsin can have only one offspring—a sterile monstrosity.

The sure path to chronic deficits lies in the direction of this bill or the enactment of crippling amendments.

Mr. LAIRD. Mr. Chairman, in the last 2 weeks a great deal has been said about the tax bill. The highlights of this widespread discussion occurred on last Wednesday, Friday, and Saturday in television and radio addresses to the Nation. Last Wednesday, of course, the President presented his case for a tax cut. He pleaded for the bill's passage with no amendments, no conditions, no compromises.

On Friday and Saturday, respectively, the gentleman from Wisconsin [Mr. BYRNES] and the gentleman from Missouri [Mr. CURTIS] replied to the President. They reaffirmed the view of most Republicans and many Democrats that the tax cut, if it is to come in this period of protracted, planned deficits, must be conditioned upon firm commitments 'o control and reduce Federal spending.

Mr. Chairman, the recommittal motion that the gentleman from Wisconsin will offer is deliberately and precisely designed to impose a minimal control on Federal spending. It will make the effective date of the tax bill contingent upon a demonstrated attempt to hold

Government spending roughly within present limits. In short, the tax bill will be permitted to become effective on January 1 of next year if the 1964 spending level is held to \$97 billion and if the President's 1965 budget proposal holds the spending level to \$98 billion.

This amendment would be unnecessary if the President's recent actions had kept pace with his verbal promises. That they have not is demonstrable; that they will not is predictable. Only the Congress can force the President to bring his actions in line with his words.

Some, of course, have pointed, and others will point to the language that is already contained in the tax bill now before this body. It expresses the hope that spending will be brought under tighter control; it expresses the wish that the President will declare his accord with this objective. This, the President, has done, not once but many times.

In his tax message on January 24, for example, he pledged "economy and efficiency in a strict control of expenditures." This declaration by the President preceded by some 7 months the decision of the Ways and Means Committee to include in the tax bill its pious hope for reduced spending. This fact alone indicates that a majority of the House Ways and Means Committee has seen no real evidence to date of the fulfillment of the President's promise to economize.

Again in his speech on September 10 to the Business Committee for Tax Reduction in 1963, the President pledged "to achieve a balanced Federal budget in a balanced full-employment economy." He also promised "to exercise an even tighter rein on Federal expenditures, limiting outlays to only those expenditures which meet strict criteria of national need." The President's use of the words "an even tighter rein on Federal expenditures" implies that some meaningful control has already been exercised when, in fact, the opposite implication is obvious to any who glance at the record.

Let us for a moment, Mr. Chairman, take a look at the recent record. One of the major objectives of the tax bill, according to the President, is to alleviate the unemployment problem. The chairman of the Ways and Means Committee, the gentleman from Arkansas, in a recent letter to the President, expressed his deep conviction that we cannot travel at the same time both the road of increased spending to solve unemployment and the road of reduced taxes for the same purpose. He reiterated that belief on the floor of this House yesterday. If memory serves, the President declared his

accord with the gentleman from Arkansas [Mr. MILLS] conviction. In fact, in his television address to the Nation, President Kennedy said, "no wasteful, inefficient, or unnecessary Government activity will be tolerated on the grounds that it helps employment."

Mr. Chairman, what program could be considered more wasteful, more inefficient, or more unnecessary than a public works program which at best can provide a minimum of jobs at maximum expense with only temporary respite for those few unemployed who are affected by the program?

Yet the President requested additional funds in the amount of \$500 million for the Public Works Acceleration Act of 1962. Realizing the futility of such a program to alleviate in any meaningful way the unemployment problem, the full Committee on Appropriations dropped these funds from the supplemental appropriations bill last April. After a public outcry, the President sent his troops to this body and managed to pressure enough Members to bring about a restoration of \$450 million to the bill when it reached the House floor.

Mr. Chairman, this example contains a twofold lesson. On the one hand it demonstrates that the President is not willing to economize. If he cannot bring himself to accept cuts in a supplemental public works appropriation, in what area of the Federal budget could

[P. 17141]

he possibly find it feasible to sustain cuts in the interests of economy?

The other part of this twofold lesson concerns unemployment. In this regard he demonstrated by his actions and his words his total disagreement with the conviction of the gentleman from Arkansas that we cannot travel both the road of increased spending and that of reduced taxation to alleviate unemployment. In scoring the Appropriations Committee's action of cutting his public works funds, the President stated on April 6:

It seems inconceivable to me that people can make speeches against unemployment and then vote to destroy a program the objective of which is to attack the unemployment problem.

If this action on the part of the administration were an isolated instance, it could perhaps be explained away as a temporary lapse in the President's belated embrace of economy. But it is not. Rather, it is but another brick out of the wall of economy that the President is methodically tearing down.

The history of the area redevelopment bill in this session of the Congress pre-

sents another classic example. In June, the House of Representatives wisely defeated the area redevelopment bill of the administration. Again indignant cries could be heard throughout the land. And, again, administration troops were activated—this time to storm the Senate. Having successfully passed the Senate, the bill was sent back to this body for another try. It is interesting to note that during this very period in which the tax bill is being considered and in which the President is making verbal promises to hold down spending, his troops are busily at work trying to force the area redevelopment bill onto the floor of the House for another vote. Present indications are that these efforts too will be successful and that the bill will come before this body for another vote within the week. This is not the work of an administration that is committed to expenditure control. It is the work of an administration that has demonstrated the need for the Congress to impose effective expenditure controls upon it.

Again last June, administration troops could be seen in the Senate working to bring about the restoration of much of the \$1.9 billion the House had cut from the defense appropriations bill. This was not a large reduction considering the immense size of the bill itself. Moreover, it in no way impaired or jeopardized the security of the United States.

Mr. Chairman, I could go on, as could every Member of this body. The limits of time rather than a lack of examples compels me to confine myself to one more instance. The most recent and the most flagrant example is that of foreign aid. The impact of our mammoth foreign aid program on our balance-of-payments deficit is obvious. The built-in waste in our administration of this program is clear. The abject failure in many facets of our shotgun approach to foreign aid is equally obvious. Yet, the modest reduction in this program by the House of Representatives evoked an administration outcry that was heard round the world. The President accused the Republican leadership of waging "a shocking and thoughtless partisan attack" against the aid program. And predictably, administration troops were immediately dispatched to the Senate to bring about a full restoration of his request.

Mr. Chairman, the President talks about essentiality. He promises tighter control on expenditures by, in his words, "limiting outlays to only those expenditures which meet strict criteria of national need." His actions—on public works, area redevelopment, the defense bill, foreign aid, and so forth—and

his requests for new programs such as a Domestic Peace Corps, a Youth Conservation Corps, massive Federal aid to education programs, a mass transportation bill, and so forth, have established a record that defies anyone to demonstrate his commitment to these words of promised economies. All that his record has demonstrated is the fact that he is unwilling or, because of the economic philosophy to which he is wedded, unable to establish and live within priorities. One would think that a tax bill which the President has called the single most important bill to come before the Congress in 15 years would not be placed in jeopardy by that same President for the sake of public works legislation. Yet his actions demonstrate that no bill has a special priority—that every administration-backed bill receives top priority as each one comes before the Congress for passage. It is for this reason—because the President is inherently unable and blatantly unwilling to introduce economies in Federal spending—that the so-called Byrnes amendment to this tax bill is a must. It is not merely desirable or, as some would have it, partisan.

It is absolutely necessary as the only means presently available to put some kind of a lid on our skyrocketing Federal expenditures. It will not hinder in any way the ability of the President to administer effectively his office and his trust. On the contrary, it will help him. It will, for one thing, practically ensure passage of his tax bill. Although personally, I cannot support the bill, if the Byrnes recommittal motion with instructions is passed, many who would otherwise oppose passage of the bill, will be able to vote for it.

My own opposition to the bill rests on the proposition that it will not accomplish any one of the three major objectives President Kennedy outlined as requisite for any sound tax program. The three objectives are: Simplification of the tax laws; reducing inequities in the tax laws; and creating new jobs. Obviously this bill will not simplify it, it will complicate; it adds some 300 new pages of complexities to the statute books. As to inequities, they will be increased for millions of taxpayers. For example, taxes will be increased for those who itemize deductions and reduced for those who do not. There will also be a double taxation of dividends, to mention but two of the added inequities. That the present tax bill will create new jobs is highly questionable at best. This bill is aimed at increasing consumer spending. The more logical way to increase jobs is by encouraging investments in new and ex-

panding industries which this bill does not do. Even if one admits that an increase in disposable income will result, which I am willing to do, there is no guarantee that consumer spending in the aggregate will increase. In the 1948 tax cut experience, consumer spending hardly showed any increase. Rather, the increase was seen in savings, and there is no guarantee that that experience will not be repeated. Also this increase in disposable income could be applied to debts, to buying securities, and to other uses which will not have the effect of creating jobs.

It is for these and other reasons, Mr. Chairman, that the tax bill will not have my support. I have always been for tax reduction and reform and will continue to support sound tax programs. This bill, however, in my view will create more problems than it can possibly solve. No bill, in the area of taxation, is better than a bad bill.

Much as I personally am opposed to this tax bill, the facts of political life indicate that it will probably be passed by this Democratic-controlled Congress. If it must be placed on the statute books, it will be a far better bill with the Byrnes amendment than without. For this reason I urge passage of the Byrnes recommittal motion with instructions to report the bill back to the House floor with the language of the Byrnes amendment contained therein.

Mr. FUQUA. Mr. Chairman, today the House of Representatives is called upon to vote on one of the most important matters that this session will face. That is the tax cut proposals, designed to stimulate the economy of this great Nation.

First I would like to commend the members of the Ways and Means Committee for one of the outstanding jobs of this or any other session. Months of long hours of laborious toil have gone into this proposal, it is not ill conceived or hurriedly arrived at.

It seems to me that this Nation faces one of two courses. It is a fact that just to hold unemployment to a 4 percent figure, some 5.5 million new jobs must be found. As the gentleman from Arkansas, Chairman MILLS, pointed out yesterday, this does not take into consideration additional jobs which will have to be found as a result of automation or changing markets.

How can we meet this challenge?

One way is to increase Federal expenditures, and the other is to put money into the private sector of the economy. I favor the latter, for I have faith in the free enterprise system. This is the system that has built this country into the

greatest Nation in the history of man. This tax bill, which seeks to return more money to the private sector for investment and growth is the proper way, it is the American way, it is the free enterprise way.

I feel that \$11 billion returned to the hands of the American people will stimulate the economy, allow for the creation [P. 17142]

of new plants and facilities. This challenge must be met, and this is the proper way to meet it.

But I would further add that this tax cut must be met by a decrease in Federal expenditures. As has been wisely pointed out, the President can spend only those funds which have been allocated by the Congress. We have the purse strings in our hands, we know where our responsibility lies.

I must warn as emphatically as I know how that we in the Congress must control spending. Those of us in the House must exercise restraint. The membership cannot continue after this tax cut to advocate and vote for every program that is advocated. To do so will be to lose faith with the very concept of this program.

For my part I pledge continued vigilance to cut Federal expenditures while our private free enterprise economy has an opportunity to meet this challenge of our time, to provide jobs for all of the American people. If we will but control Federal spending, decreasing the load which has burdened our Nation, I feel that in a short time the impetus of this tax cut will allow us to balance our budget, and provide for a vigorous and healthy American economy.

Mr. JOELSON. Mr. Chairman, in considering this bill we must start with the fact that in order to keep up with the pace of increasing population and compensate for the loss of jobs caused by continuing automation, we must create 2 million new jobs in the United States annually. In order to do this, there is no doubt that we must stimulate our economy.

I have looked around this House and have decided that the only measure which it may be possible to enact in order to spur the economy is a tax-cutting bill. I wish it were possible to stimulate the economy at the present time by increased programs for housing, hospitals, and schools.

If you take a train from Washington to New York, you will ride for 4 hours through a continuous jungle of slums in which American people live. If you visit an urban hospital, you will see bed against bed in an obvious shortage of facilities. Visit a school in one of our

major metropolitan centers, and you will find overcrowding and split sessions.

So I would wish to prod the economy by spending to meet our still unmet social needs, and at the same time putting Americans to work making the steel, the appliances, the building material used in these new facilities.

But Mr. Chairman, I try to be realistic. I do not kid myself. They say that politics is the art of the possible, and I know that the only possible bill we may get from this Congress to expand the economy is a tax-cutting bill.

Frankly, I am not without some misgivings about this bill. It remains to be seen whether or not it will do the great things we all hope it can do. But I do know that we cannot stand still. To stand still at this moment in our economic history is to slide back.

It is my fervent hope that a tax-cutting bill will so stimulate the economy and thereby increase our national wealth that the Federal Government will eventually receive the revenue it needs to meet the needs of the times.

Mr. BYRNE of Pennsylvania. Mr. Chairman, I agree entirely with President Kennedy when he says that no more important piece of legislation will come before the Congress this year than his program to cut individual and corporate Federal income taxes by some \$11 billion.

I also agree with him, when he stated that no more important piece of domestic economic legislation has been considered by the Congress in some 15 years.

The President's tax reduction program is aimed at building—and sustaining—the economic health of our country—today—in the months immediately ahead—and in the years ahead.

I think we may all enjoy a feeling of satisfaction due to the fact that the economy of the Nation is on the upsurge today.

We have not experienced a slump, or a recession, that some people feared might be our lot today.

Production and business indicators are at an alltime high and in a number of major areas of production and profits, new records have been set for the second quarter and the first half.

We have reached and passed the milestone of 70 million Americans employed.

Factory work wages have topped \$100 per week for the first time in history.

And at the same time, unemployment, which stood at 6.7 percent in January of 1961, has been reduced to 5.5 percent as of our latest figures, for August of this year.

These are good signs for good times.

We can take a measure of satisfaction in these good indicators.

But these factors are not enough.

They are not enough when—as the President has pointed out—we have had a recession, excluding war years, on the average of every 42 months since World War II—or every 44 months since World War I, and by next January it will have been 44 months since the last recession began.

And our signs of moderate economic health are not satisfactory when we still have some 4 million Americans unemployed—Americans who want to work but cannot find work—what we call our hard core of unemployed, an unemployment rate that still hovers above 5 percent though we set new records in profits and production—and jobs and wages.

The President's new tax reduction program is a must for the country—today, not for some nebulous time in the future.

It is a must—as insurance against the waste of man-hours of high unemployment, and the further loss of production lost to business and profits; and the high budget deficits resulting from a crippling recession—to keep our present economic uptrend from running out of steam—to build new jobs for the hard core of our unemployed, and for all the million new workers entering the labor market every year.

The tax program will stimulate the expansion by pumping some \$11 billion into our economy in increased buying power.

This new buying power is aimed at increasing demand for products—increasing production to meet this demand—expansion of plants and industries to meet this new production demand—and expansion of job opportunities to provide the increased production—and this means jobs for the jobless, and for the new workers coming onto the labor market.

All this means an expanded American economy—and in the end, from an expanded economy, increased tax revenues for the Treasury, and the prospect of future balanced Federal budgets.

As the President said in his television address to the Nation the other night, "Prosperity will balance our budget."

I have been very much interested, incidentally, in the figures as to what this \$11 billion tax cut will really do.

This \$11 billion, for instance, as it works into the economy and spurs additional buying, production, investment, jobs, and the like, is expected to generate an estimated \$30 billion nationally, in personal income.

And President Kennedy pointed out in his television address, in describing the tax cut as a means of providing new

markets for American business, that the multiplied effect of new private consumption and investment expenditures released by the tax cut will create a new market, right here at home, nearly equal to the gross national product of Canada and Australia combined.

And there is another aspect that none of us should forget.

While the tax cut will increase Federal Treasury revenues in the long run through an expanded economy, it will also increase State and local revenues.

In my own State of Pennsylvania, alone, for instance, it has been estimated that the increase in State and local tax revenues resulting from economic expansion spurred by the Federal tax cut will amount to something like \$136 million—some \$75 million accruing to the State, and another \$61 million to local governments.

This represents approximately a 6-percent increase in tax revenues in my State, both at State level and at local level.

This is something every one of us should consider in our home communities, as we scramble for every dollar to pay for our streets and schools and sewers, police and fire protection, and the like.

As for the Nation, the President's tax cut program will work for every State and every community—for every American at every level of our society in employment pursuits.

Mr. BERRY. Mr. Chairman, of all the neat political tricks that this administration has so far been able to pull this so-called tax cut bill is without any question of a doubt the neatest.

Citizens and taxpayers of the Nation have revolted against this administration's demand for greater and greater spending programs. They have been demanding economy in Government because they are beginning to realize that as much as one-fourth of their income is going into the Federal Treasury. They are beginning to realize that they are

[P. 17143]

working from January 1 to the latter part of April before they are permitted to work 1 day for themselves and their family. This time is contributed exclusively to the Federal tax take.

The taxpayers are in a state of revolt. The administration wants more spending instead of less. Some form of a sedative must be given to the taxpayers to quiet their nerves against this terrific tax take in order that they will be less vocal against these new spending programs recommended by the administration and the ADA advisers who surround the President.

The President has said in effect that we will not reduce spending, but that we will do this—we will give the taxpayers a tax cut which should reduce the protest against the increased spending programs, and the deficit created by this \$11 billion Federal income reduction can be quietly added to the national debt which the administration reasons is not presently as painful for the taxpayer as is meeting the cost of increased spending out of their pockets at the present time.

This tax cut bill, Mr. Chairman, is nothing but a form of dope, or a sedative to quiet the tax conscious nerves of the American taxpayer. How Congress can go along with such a reckless, foolhardy, budget-busting, bankruptcy plan is beyond me.

Yes I know, Mr. Chairman, that the President has given his promise that he will hold down Federal spending and thus help to reduce the budget deficit. Did it sound, Mr. Chairman, like he had any intention of holding down Federal spending when the House sliced one-half billion out of the Foreign Aid Authorization Act? On the contrary, the President flew into a rage, as reported by the wire services, and condemned the House and the House action, calling this body irresponsible. Under these circumstances, Mr. Chairman, certainly the President cannot do anything as "irresponsible" as reducing spending. He must maintain his record of responsibility in the area of spending so the Congress and the taxpayers must certainly know exactly what his position will be when it comes to reduction of deficit financing.

The Department of Commerce has issued a tabulation of the decline of the purchasing power of the dollar since 1939 to date. If you will check that tabulation, you will see that the only two times the value of the American dollar has increased since 1939 was in 1949, following the action of the Republican 80th Congress in 1948, when the budget was balanced and a sizable payment made on the national debt, and again in 1955 when again a sizable reduction was made in the national debt. These are the only two times since 1939 that the value of the dollar has increased, and this tabulation points out very definitely and very conclusively why the dollar value did increase those 2 specific years.

Yes, Mr. Chairman, Federal control and Federal spending have been the foundation of most of our trouble. Easy money through Federal paternalism and an economy which is continually doped up with inflation created by living on borrowed money will never produce national strength. These things are destructive of character and initiative both

for the individual and for his Government. Reducing taxes without an equal or greater reduction in spending can only bring about greater inflation, greater destruction of the value of our dollar, and ultimately, complete destruction and complete chaos in the economy of this Nation.

Mr. Chairman, the time has come for Congress to act effectively and decisively. I hope and trust this tax cutting bill will be defeated. It is not a sedative the taxpayers need. It is sanity in Government operation.

Mr. ROOSEVELT. Mr. Chairman, I rise in support of this bill. Reduction in taxes will mean the utilization of more of our economic resources in the private sector of the economy. I believe, as the gentleman from Arkansas, Chairman MILLS, has so eloquently stated, that this reduction is essential if we are to see a continued sustained growth in our economy. If we do not pass this bill, we are inviting stagnation and possibly decay. Our aim must be to prevent a recession by enabling our economic growth to be sustained. The pattern of ups and downs which has characterized the economy in the postwar period cannot be acceptable to us. This bill offers us an opportunity to get off that treadmill. I hope we shall take it.

There are some Members of the minority party who have said that they too are for a tax cut to stimulate the economy, but that this tax cut must be contingent on maintenance of expenditures at present levels. They choose to overlook the fact that the increased economic activity rising from the reductions will increase revenues and balance the budget in the long run. The limitation of expenditures in this way will have some deleterious effects which have been little discussed. It would tend to entrench existing programs, without their being subjected to continuous review to see if they are desirable, and being conducted without waste. Thus, this restraint on the bill would have an effect exactly opposite to that which its proponents intend. Furthermore, such a restraint would tend to rule out the establishment of new programs which might become necessary in future years. It is therefore far better that we not place an arbitrary ceiling on expenditures. If we pass the bill as it is, we can continue to meet our responsibilities, and do so in the context of a trend toward a balanced budget, as a result of increased revenues from a more prosperous economy.

I do not think, while we are discussing the economy in abstract terms, that we should overlook the effect which this bill will have on individuals. For many,

particularly those in the very lowest income brackets, this bill will mean a very significant increase in standard of living. This human benefit is one we should all weigh as we pause to consider the merits of this legislation.

This bill is, admittedly, an experiment. The cutting of taxes to stimulate the economy in a time of relative prosperity is a novel act. Nevertheless, everything which we have learned and which our reason can tell us indicates that this is an experiment which we ought to conduct, for the sake of ourselves and future generations. We must watch very carefully, after this legislation takes effect, to see that the money which is no longer going to the Government is being used to stimulate our economy. We may find in future years that it will be desirable to modify this program, and we must be prepared to make necessary changes regardless of political consequences. Thus, in a very real sense, the enactment of this measure represents not the end of our work, but the beginning.

Mr. HALPERN. Mr. Chairman, I rise in support of this legislation which, in balance, is commendable and will, together with cuts in spending, I am convinced, do much to stimulate and stabilize our economy. While many of the injustices of our tax law still remain, and many other avenues for justifiable reductions have not been touched, the bill does make great strides in correcting some of the inequities that have mounted through the years and have strangled individual and business initiative.

We are, of course, today acting on a matter that affects each and every individual. Benjamin Franklin once said, "We are certain of nothing in this world but death and taxes." How right he was. But that does not mean we should sit back and reconcile ourselves to the inevitable.

We have made great strides in prolonging life—and there is no reason on earth why we cannot ease the pain of taxes. Congress can play the role of tax doctor and I think we have the initial ingredients for the right prescription.

This bill, as far as it goes, is a good one. But, I still feel we must find new and even more potent ingredients to give the patient—the American taxpayer—the relief he needs and should have.

The fact that the committee has come up with this omnibus bill does not mean there cannot be additional legislation at this session. It does not mean that all our eggs have to be in this one basket—and it certainly does not mean that all our problems are now solved.

I think of this bill as an important starter for further legislation yet to come. I would like to see measures to cover an even broader base and to give more tax breaks where I feel they are most justified and needed—more than those provided in the anticipated bill. And, I would like to see additional tax favoritisms eliminated. As an obvious example of this, I refer to the 27½-percent oil and gas depletion allowance. This concession to oil and gas producers means a loss of hundreds of millions of dollars a year in revenue to the Government which other taxpayers have to make up. Such special situations should be corrected—and real tax relief should be given where it belongs—to the greatest number of taxpayers, those in the middle and lower income brackets. After all, these are the folks who represent the bulk of American purchasing power.

[P. 17144]

The whole idea of a tax cut is not just for the Government to play Santa Claus—but to boost the economy by leaving more money for the consumer to spend. The result is a chain reaction—a cycle—which in turn multiplies throughout the economy. More spending means more production, more production means more capital investment, more investment means more jobs and higher income, which in turn means ever more spending and so on. Thus, the cycle continues—with the Government—the Federal, State and city—benefiting with a proportional increase in their own revenues. So, you can see that any immediate tax loss to the Government will be more than offset in the long run. And, let us face it. Our economy certainly could use this shot in the arm.

As I stated, the committee bill, as far as it goes, is a good one. I am particularly pleased with the relief that will come by reducing the entire range of personal income taxes by across-the-board percentage cuts. I also like the corporate tax reduction, the liberalization of the capital gains features and the investment tax credit—all of which should encourage business expansion.

However, I would like to see even broader remedies to cure our tax ills. I believe some of the bills I have introduced would do just that. So would many of the other measures introduced by several other Members of this House. I am assured by the chairman that every consideration has been given to these proposals and many are still being studied. I trust now that the committee's bill will be out of the way all these measures will be further explored with the view of supplementing today's action

later this year or during the second half of this Congress in 1964.

Toward this end, I call attention to my own bills which I sincerely think will help do the job. I might add happily that some of the measures I have long advocated have been included in the committee's bill.

One of these I am particularly pleased to note is the bill's tax averaging plan. It conforms with legislation I have sponsored for years, my bill at this session being H.R. 5720. It corrects an inequitable situation which occurs with persons who earn fluctuating incomes from year to year.

Mr. Chairman, I take this opportunity to appeal to the committee to consider other areas for broader tax reforms and reductions.

The most effective and direct way I know to bring tax relief to the greatest number of taxpayers and to provide a tax break where most justified and most needed is to increase the personal exemption for the taxpayer and for his dependents. Say, from the present \$600 each to a more realistic figure of \$900, or even \$1,000 each. One of my bills would do just that.

Another would permit a deduction for the cost of traveling to and from work. Of course, there would have to be a ceiling for such a deduction—such as no more than \$200 a year. If ever there was a legitimate business expense, it seems to me, it is the expense the taxpayer incurs going to and from the place where he earns his income.

I also think that the cost of college tuition should be a deductible item. This kind of deduction will more than pay dividends. You can see, Mr. Chairman, how this will spur higher education and greatly improve the productivity and income potential of our youth.

Our tax laws should also more realistically consider our senior citizens. I believe that businesses should be allowed special tax credits to hire older people. This will help overcome one of the most serious problems we face today—discrimination against the older worker. How often do we hear about folks—even as young as 40 years of age—not being able to find jobs because of their age. You can imagine how tough it is for those folks who are even older. It is said that this situation prevails because employing older people means an increase in the cost of insurance, pensions, medical expenses, workmen's compensation, special training, and so forth. Well, my bill will knock this argument for a loop.

Another thing. It is unfair to tax the

pensions of retired persons. I have introduced a bill to exempt pensions and retirement annuities from income taxation—at least up to the first \$3,000. There are other bills before the committee for varying amounts of exemption, all of which are worthy of the fullest evaluation.

I think all medical expenses should be allowed as a separate deduction whether or not a flat standard deduction is taken, in lieu of itemized items. This would particularly help middle and lower income taxpayers who have fewer itemized deductions. They would be allowed, under my bill, to deduct all medical expenses separately and still be credited with the full standard allowance.

And, of real importance, while revamping our tax structure, is it not high time some consideration was given to the homeowner? With this in mind, I have offered legislation which is before the committee. One would allow a reasonable depreciation allowance for the normal wear and tear on a taxpayer's home. This would be similar to the depreciation deduction now allowed for income-producing properties.

Another of my bills would authorize a deduction for \$750 a year for necessary home repairs and improvements. This should give the homeowner an incentive to keep his residence from deteriorating. It will stimulate the home repair industry and would also serve to maintain high standards in residential neighborhoods.

A third bill would exclude from tax any profit made by the homeowner over 60 years of age from the sale of his residence. I am delighted to say that the committee bill has embodied this feature—at least its principle. The committee bill, patterned after a proposal by our distinguished colleague, the gentleman from Tennessee [Mr. BAKER], would apply the exemption to persons 65 years and over. Commendable as this provision is; I feel it would be more effective and realistic to apply to individuals 60 or over and hope the committee's future deliberations will recommend such a revision.

And, we should not forget the rent payer. One of the reasons for high rents is the high taxes paid by the landlord. I cannot see why the rent payer should not be allowed to deduct an acceptable estimated portion of his rent that goes for taxes. This would not only eliminate the old inequity of paying taxes on taxes—but will provide substantial, and in most cases much-needed, relief to the apartment dweller. Of course there must be limitations, and the amounts should be computed in accordance with the proportion of one's income spent on rent.

Mr. Chairman, these are not pie-in-the-sky proposals. I am dead serious. After all, the President and other tax cut advocates say that tax reductions, to have a full and stimulating impact, should extend to citizens in all walks of life.

Well, how much broader can we get than to grant greater personal exemptions for every taxpayer and each of his dependents—for every commuter who must travel to earn his income—for the student—for the senior citizen—and for those who employ him—for the home owner—for the rent payer.

Mr. Chairman, this legislation of course is not a panacea nor is it by any means a cureall. It does not profess to be. But, it is a long forward step toward obtaining sound and badly needed tax relief.

We must look at such a complex and all-encompassing problem in full balance and with this in mind, there is no question but that the pluses in this bill far outweigh the minuses.

On the whole, I feel the bill will go far toward accomplishing its objectives. But, Mr. Chairman—and this is important—we cannot look at tax cuts without looking just as hard at budgetary cuts. The two are inseparable to a healthy economy. What is the use of saving the taxpayer money on the one hand and then have his cost of living increase on the other hand because of an inflation which will more than offset any break he would get by the cut. That would be ridiculous and irresponsible.

That is why I was delighted with the President's assurance of a huge slash in unnecessary governmental spending in an effort to equalize the tax reductions and offset inflation. I am pleased by his assurances of real belt tightening in next year's budget.

Consistent with this assurance, I feel it incumbent on Congress to clearly set forth a declaration of policy in this respect. For that reason, I support the amendment to attach a rider to the bill. It would be consistent with the President's own avowed objective of economy and budget responsibility.

I do not think a budget keyed to the fiscal realism of the tax cut is impossible. There are many areas where further economy can be effected without any damage whatsoever to the public welfare and national interest. One step we might take toward cutting the fat would be to give the President the right to an item veto over measures contained in general appropriations bills—a move I and many other Members have long ad-

vocated. And there are certain tax favoritisms that should be corrected in order to justifiably bring considerable more revenues to our Nation's coffers—such as the oil and gas depletion allowance.

Mr. Chairman, in summation, let me say that this bill, taken in perspective, is a good one. It is an important move in the right direction. It does not solve all our tax problems. But it certainly does not close the door to additional much-needed tax law revision.

I trust that this House will pass this measure and continue to press for further equitable relief in areas yet untouched for the benefit of the greatest number of our taxpayers.

Mr. SHORT. Mr. Chairman, last Wednesday, the Nation was treated to a monolog by the President, in which he urged the people to support his tax-cut-reform legislation, now being considered in the House of Representatives. In his monolog—later to be given the aura of debate when the gentleman from Wisconsin, Congressman JOHN BYRNES, ranking minority member of the House Ways and Means Committee, and the gentleman from Missouri, Congressman TOM CURTIS, answered his arguments over radio and television under the equal time provision—President Kennedy pulled out all the propaganda and political pressure stops at which he is so expert. His opening phrase, "Peace around the world and progress here at home are the hopes of all Americans" set the scene properly for a speech which basically was a fraud upon the American public. However, when he termed them "crucial decisions," I agreed with him. I agree, too, that no more important legislation will come before the Congress this year than the proposal to reduce Federal taxes. My reasons for agreeing, however, are in direct opposition to the President's reasons for supporting this tax cut and so-called tax reform measure. In this, I join every Republican member of the House Ways and Means Committee—but not for the partisan reason which the President tried to ascribe to all who opposed him.

First, let me state flatly: We Republicans are in favor of tax cuts. It is a longstanding Republican position that excessive tax burdens and steeply progressive tax rates should be reduced. Our history of action—not just words—will prove this.

Second, let me state just as flatly: We Republicans oppose this attempt at fiscal fraudulence. We oppose this attempt to grant tax reduction while actively resisting efforts to control mounting Government expenditures.

In the Revenue Act of 1948, the Republicans were responsible for a \$7.1 billion tax reduction for fiscal 1949—which left an amount in excess of \$7 billion for reduction of the public debt. This we did when the Truman administration anticipated a budget surplus of over \$6 billion for fiscal 1948. President Truman vetoed our bill three times in an effort to prevent this tax reduction.

Again, in 1954, the Eisenhower administration attempted to reduce Government spending. We were able to reduce taxes by \$7.4 billion—\$4.6 billion of which went directly to individuals. Expenditures, however, did not rise, but were reduced from a level of \$74.1 billion in fiscal 1953 to \$64.4 billion in 1955. This brought about budget surpluses for fiscal 1956 and 1957—and proved to be the largest tax reduction in any single year in the history of our country.

These facts in themselves should serve to lay to rest the ghost wafted across the television screen before the viewers by President Kennedy when he listed "those who want to deny our country the full benefits of tax reduction."

Now let me go into my reasons for opposing this tax cut and so-called tax reform bill, unless the Republican amendment is adopted which would provide a corresponding statutory deterrent to increased spending. This amendment is to be offered by Congressman JOHN BYRNES. I intend to support this amendment. I would not be able to face my own children, or grandchildren—much less those of my neighbors, friends, and constituents, if I supported the Kennedy proposal without this necessary amendment. This amendment provides a specific and certain brake on Federal expenditures and deficits without which the majority of our people, including former Presidents Truman and Eisenhower, are opposed to this bill.

We can ask: Why, in the face of his protestations that he intends to pursue a course of true fiscal responsibility, does the President oppose this amendment? Why is he determined to gamble with our American fiscal policy? If he wants American businessmen to have their confidence in his administration restored in order to increase their investments by proving runaway Federal deficits are being restrained, this is his golden opportunity to do so by supporting an amendment which shows logic and common-sense and would prove his good faith. If he wants the American public to accept his tax-cut-reform recommendations why not offer this proof of sincerity? And if he wants the Congress to overwhelmingly support his bill, this is his way to achieve that victory.

Let me quote some figures which are

not figments of imagination or economic theories, but which are backed up by actual budget reports and statements.

When President Kennedy took office, our budget was balanced for fiscal 1961.

For fiscal 1961, estimates forecast budget receipts of \$79 billion. After the economy was Kennedized, it instead was \$77.7 billion.

For fiscal 1961, expenditures were forecast of \$78.9 billion. After being Kennedized, they became \$81.5 billion.

Fiscal 1962 budget receipts were \$81.4 billion.

Fiscal 1963 budget receipts were \$86.4 billion.

Fiscal 1964 budget receipts are estimated at \$88.8 billion, which includes, according to Secretary of the Treasury, an assumption of the tax cut, effective January 1, 1964.

Fiscal 1965 budget receipts are estimated at \$92 billion—again including the tax cut.

This shows the Kennedized budget receipts so far have increased \$13 billion.

Now contrast this to—

Fiscal 1961 estimates of budget expenditures were \$78.9 billion; after being Kennedized, they became \$81.5 billion.

Fiscal 1962 actual budget expenditures were \$89.2 billion—less a sale of Government assets of \$1.4 billion—leaving \$87.8 billion.

Fiscal 1963 actual budget expenditures were \$94.5 billion—again, less sale of Government assets of \$1.9 billion—leaving \$92.6 billion.

Fiscal 1964 budget expenditure estimates are \$98 billion.

Fiscal 1965 budget expenditure estimates are \$102 billion. These latter 2 fiscal years include Secretary of Treasury assumption of the tax cut, to be effective January 1, 1964.

This indicates unmistakably the Kennedy administration budget expenditures amount to \$23.1 billion.

Now let us look at the budget deficits, by Kennedy administration years:

Fiscal 1961 estimate, originally \$0.1 billion, after being Kennedized, became \$3.8 billion.

The fiscal 1962 budget deficit was \$6.4 billion.

The fiscal 1963 budget deficit was \$6.2 billion.

The fiscal 1964 budget deficit estimate was \$9.2 billion.

The fiscal 1965 budget deficit estimate is \$10 billion.

Again the years 1964 and 1965 reflect the assumption of a January 1, 1964 tax cut.

The Secretary of the Treasury stated the administration budget for 1966 would be \$3 billion more; at least \$105 billion

in his statement before the Tax Reduction Committee.

This makes it clear that as the new proposed tax rates become effective, we will only add to the deficit, and increase the public debt.

According to the gentleman from Michigan, Congressman VICTOR A. KNOX, a member of the House Ways and Means Committee who has served three decades in public office:

Each dollar of tax reduction granted under existing fiscal conditions will add \$1 to our public debt.

The gentleman from Michigan, Congressman KNOX, continued:

In the three decades that I have been in public office, I have never thought the time would come when I would have misgivings over a tax reduction program urged by the Executive. I have misgivings over this proposal to provide tax reduction in the context of our existing fiscal posture because the administration seeks to finance the cost of the reduction out of substantially increased deficits rather than through Government economy. It is within the authority and the responsibility of the Congress to make tax reduction sound and feasible in 1963 by manifesting now its determination to enforce frugality in spending.

Can we afford to ignore this voice of experience? I think not. For further proof, let us consider what was determined by the Business Committee for Tax Reduction in 1963—a group fathered by the Treasury Department. It recognized the need for expenditure control. It predicated its support of tax reduction on "control of our current and [P. 17146]

future expenditures"—which it termed "vital". This committee further stated:

This control is needed to restore the Nation's confidence in its own fiscal affairs, to reassure our foreign creditors, and to assist in solving our critical balance-of-payments problem.

Again, this same committee declared:

A reduction in the 1964 budget is reasonable and practicable * * * there is no situation foreseeable which would necessarily require the 1965 and 1966 budgets to increase over that proposed for 1964. We have had large, progressive increases in recent years, and there is no justification for a continuation of the upward trend.

Now let us look at our public debt problem:

First, we must realize that public debt is nonproductive, whereas private debt can be productive. The Kennedy administration seems to feel that our national fear of increased public debt is, according to the Chairman of its Council of Economic Advisers, Dr. Walter W. Heller, "a basic Puritan ethic." They

feel this must be overcome by Kennedization—or education. Therefore, the Kennedy administration has been releasing propaganda germs from time to time relating our national debt to private debt—or to the gross national product—or to population.

Let me quote some facts, not propaganda:

Our national debt will have increased from a postwar low of \$252.3 to \$315.6 billion by June 30, 1964, and by at least another \$10 billion each year thereafter, if we endorse policies of the Kennedy administration by enacting his tax cut-reform bill without amendment.

The interest charges, on the public debt alone, have doubled.

All puritans and nonpuritans should look at these figures—taken from the fiscal 1964 budget and prior budgets:

The public debt at the end of the year 1947 was \$258.3 billion; annual interest, \$5 billion.

The public debt at the end of the year 1948 was \$252.3 billion; annual interest, \$5.2 billion.

The public debt at the end of the year 1949 was \$252.8 billion; annual interest, \$5.4 billion.

The public debt at the end of the year 1950 was \$257.4 billion; annual interest, \$5.7 billion.

The public debt at the end of the year 1951 was \$255.2 billion; annual interest, \$5.6 billion.

The public debt at the end of the year 1952 was \$259.1 billion; annual interest, \$5.9 billion.

The public debt at the end of the year 1953 was \$266.1 billion; annual interest, \$6.5 billion.

The public debt at the end of the year 1954 was \$271.3 billion; annual interest, \$6.4 billion.

The public debt at the end of the year 1955 was \$274.4 billion; annual interest, \$6.4 billion.

The public debt at the end of the year 1956 was \$272.8 billion; annual interest, \$6.8 billion.

The public debt at the end of the year 1957 was \$270.5 billion; annual interest, \$7.2 billion.

The public debt at the end of the year 1958 was \$276.3 billion; annual interest, \$7.6 billion.

The public debt at the end of the year 1959 was \$284.7 billion; annual interest, \$7.6 billion.

The public debt at the end of the year 1960 was \$286.3 billion; annual interest, \$9.2 billion.

The public debt at the end of the year 1961 was \$289.0 billion; annual interest, \$9 billion.

The public debt at the end of the year

1962 was \$298.2 billion; annual interest, \$9.1 billion.

The public debt at the end of the year 1963 was \$306.1 billion; annual interest, \$9.9 billion.

The public debt at the end of the year 1964—estimated—was \$315.6 billion; annual interest—estimated—\$10 billion.

In testimony before the Joint Economic Committee in January, Dr. Arthur F. Burns, professor of economics at Columbia University, and a former Chairman of the Council of Economic Advisers, had this to say:

I seriously doubt if we could have a protracted and substantial increase of the Federal debt without exposing our currency, and with it our economy and international political prestige to a very grave risk. * * * A series of large deficits in times when the economy is advancing may cause a revolution of feeling and later paralyze the Government's ability to deal with a recession.

President Kennedy offers, as his fiscal policy, either a policy of planned deficits to be brought about through tax reduction or increased spending or a combination of both. The basic principle is that planned deficits are desirable, regardless of the current state of the economy, as a means of promoting future economic growth.

Now how do the Democrats, particularly members on the House Ways and Means Committee, feel about the President's demonstrated fiscal policy?

Obviously the majority recognized the need for taking some affirmative action to bring expenditures under control. Therefore they salved their puritan conscience somewhat by adding to the tax cut-reform bill a hope and prayer that any future revenue increases would first be used to eliminate the deficits in the administrative budgets and then to reduce the public debt.

To allay their fears and influence them to support his legislation—the President addressed a letter to the gentleman from Arkansas, Chairman WILBUR MILLS, dated August 19, 1963, stating that Federal expenditures will be limited “only to those which meet strict criteria of national need.”

The President's determination of national need has been demonstrated time and again in his countless messages to Congress, demanding Federal aid to education, medical care for the aged linked to social security payments, area redevelopment, increased foreign aid spending, mass transit programs, trips to the moon, increased unemployment insurance, research programs of various kinds, national service corps, urban affairs departments, and so on ad infinitum. Admittedly some of these pro-

grams have merit, but can they truly be called necessary at a time when our budget deficits have skyrocketed, and our national debt itself has almost reached the moon ahead of the explorers? Are they more important than fiscal responsibility, and stability of our dollar? He has even given advance warning in his message on the tax cut and reform program the other night that he considers many more programs to be of the utmost importance.

The administration has indicated very clearly its future policy by its past history. Each time the President requested an increase in the national debt limit, his fiscal 1963 budget underwent revision. This is shown by table 4 for fiscal 1963, on page c. 17 of the House Ways and Means Committee Report No. 749, which accompanied the President's bill, H.R. 8363.

We find the Kennedy budget receipts for fiscal 1963 showed \$93 billion.

The first revision time, May 24, 1962, showed it as \$93 billion.

The second revision, which took place 1 week after the 1962 congressional elections, changed it to \$85.9 billion.

The third revision, in the fiscal 1964 budget message, made it \$85.5 billion.

But actual budget receipts of \$86.4 billion indicated a change of \$6.6 billion less than forecast.

On budget expenditures—the 1963 Kennedy budget showed \$92.5 billion.

This was revised first to \$93 billion.

It was revised second to \$93.7 billion.

The third revision brought it up to \$94.3 billion.

Then the fourth revision listed kept it at \$94.3 billion.

Annual budget expenditures proved to be \$92.6 billion—an increase of \$0.1 billion.

Now this applied to the public debt thus:

The fiscal 1963 Kennedy budget showed \$295.2 billion as the public debt.

The first revision changed this to \$294 billion.

Second revision, in midyear, made no change.

The third revision made it \$303.5 billion.

The fourth revision made it \$305.3 billion.

The actual public debt was \$306.1 billion—meaning an increase of \$10 billion, after Kennedization took place.

This is financial manipulation—on paper—and should reassure no one.

The President's letter to the committee also claimed a reduction in the estimated Federal deficit for fiscal 1963 of \$2.6 billion. But let us examine what brought this reduction about, not Ken-

nedy administration policies, but the following events:

First. The administration sold some \$2 billion of disposable assets to realize an additional \$1 billion in excess of the January 1963 budget forecast. This, incidentally, took place after the Ways and Means Committee, on Republican urging, refused to increase the debt limitation until the debt picture was improved.

Second. Tax revenues increased by an estimated \$0.9 billion over earlier forecasts—but because of an improvement

[P. 17147]

in the economy—not through Kennedy administration fiscal policies.

Third. A \$46 million reduction in welfare claims took place—again because of the improvement in economy—and again, not attributable to Kennedy policies.

Fourth. The Defense Department collected about \$340 million in advance for military equipment sold overseas—in order to improve our unfavorable balance-of-payments. This was used to offset other expenditures—and there was no change in actual rate of spending.

Fifth. The accelerated public works program—sponsored by the Kennedy administration—was delayed because the States and local authorities were unable to initiate the programs as rapidly as the administration had expected—and this was merely an “involuntary” postponement of these expenditures.

President Kennedy also claimed that there is a decline in the rate of growth of civilian employment in the Executive branch. But, he neglected to state that the contemplated new employees weren't added as rapidly as the administration had planned; that employment in the Executive branch was on June 30, 1963, still 5,000 above that of a year earlier—and that employment in the executive branch has increased by 137,000 during his administration. Further, that his fiscal 1964 budget shows the Executive branch employment is estimated to increase by another 36,000.

On every occasion when there has been a cutback in spending, President Kennedy has very intemperately chided the Republican and handful of Democrats for their action and urged reinstatement of the funds. This took place recently on the foreign aid authorization bill, it took place on increasing the appropriation for the Area Redevelopment Agency, which he insists on bringing before the Congress again very shortly.

In the face of these facts it should be clear that the administration not only has not, but will not change its attitude with respect to planned deficits. Unless

Congress, by voting to support the Republican Amendment on the tax cut-reform legislation, forces him to do so, the President will be juggling budget estimates of revenue and expenditures and requesting increases in the debt limit or forcing a change in our monetary policy—in order to save us from the catastrophe of spiralling inflation.

Anything else is pure wishful thinking and should not be indulged in by experienced, pragmatic legislators in lieu of an intelligent, statesmanlike approach which the constituents have a right to expect from their elected representatives. The American people who have been thrifty, who have bought insurance, who have savings or pensions, and all those on fixed income—will be the first ones to suffer.

Let me quote from the German Tribune, of September 21, 1963, which contained an article entitled "Economic Growth by Inflation?—The Destruction of Modern and Age-Old Legend." Few will deny the ability and common-sense exhibited by the German Government in its financial dealings. The article had this to say:

Even in the highly developed countries of the West, there are growth fanatics * * * who, with the fascination that can only be called spellbound madness, watch the annual growth rate of the national product with a panicking mind, and pretend that it amounts to a national disaster or an unforgivable sin of the government, or of whomsoever, if this growth should ever slow down for some time. * * * There is the highly dangerous plan, recommended by the supporters of the policy of growth at any price that the pump priming of economic growth should be made by means of an inflationary continuous permanent injection of the economy. * * * With every justification, it is true, most people regard inflation as something highly sinister, as a poison which makes economy and society disintegrate, as a fraud of a major style. * * * In many countries, and Europe included, there are many people—who do not regard creeping devaluation of money as something bad. It is true that regularly they will not say so in public, but their behavior, their demands, their plans, their claims and many other statements they make, make it apparent that a mild inflation, so to speak, appears to them the Stone of the Magi. The entire national economy, they say, by such mild inflation is imbued with a kind of euphoric attitude and mood, and as there is full employment, or no substantial unemployment, entrepreneurs enjoy a greater volume of sales, employees have ever larger pay packets, and the government's revenue goes up continuously, to the rising tax incomes. At the same time, rises in costs and prices will cause entrepreneurs to engage in ever new expansion and rationalization investments, which is of great significance, as it is well known that investments are the strongest motor for the economic activity and economic growth in any country. All that sounds fairly grand,

and these economists would wish for nothing better. If such views and ideas are circulating even in the highly developed industrial and economic countries, where there is rich experimental and theoretical knowledge and experience on the disastrous consequences of inflation—it is no wonder that particularly in the developing countries these wrong concepts about the essence of the effects of inflation should be so widespread.

The German Tribune article went on to state:

We run the danger to be forced into the same situation very soon, in which the United States have been involved for many years, i.e., excessively high cost levels, lack of competitiveness, and, for these reasons, very slow growth, and, indeed, very little growth.

Mr. Chairman, I would like to point out something that I think will have a very familiar sound. J. M. Keynes, the followers, have the theory that one need only expand the quantity of money to assure economic growth. His theory dates back to that of the mercantilists and their interpreter, banker, and money theoretician, John Law, who lived between 1671 and 1729. In his book, "Money and Trade," published in 1705, John Law said:

National power and national riches—depend upon trade, and trade again depends on money. In order to be powerful and rich, as compared with other nations, we must have more money than they have; the best laws without money cannot employ people, cannot produce products, and cannot promote industry and trade.

John Law also said:

As additional money will employ people, who were unemployed up to then, and as those who are already employed, can be used with greater benefit and produce greater output, the national product can be increased and industry can be promoted.

Now let us consider why John Law is not quoted as J. M. Keynes so continually is quoted. In 1715 he was given a concession by the French Government for a private bank of issue, with unfettered and uncontrolled issue of notes. He first caused a breathtaking boom—which broke down just as suddenly and threw the country into one of its most difficult economical and financial crises. Both Keynesianism and mercantilism holds the same employment theory; that augmentation of demand would also produce an increase in production. This theory, however, is only correct under the prerequisite of wages and costs not rising as a consequence of increased demand. While this might have been true at the time of mercantilism, it is not true today, unless we have an authoritarian government which can determine what working conditions are, which can fix the level

of normal wages even in times of inflation. Otherwise the all-too-well-known vicious circle of wage-price spiral begins and accelerates and the hopes of achieving better employment and greater economic growth is soon defeated.

Although many feel we are on the brink of an authoritarian type of government, we have not as yet reached that edge. Do we want to take the final steps to this type of government by passing this cut reform bill without the statutory control of Government expenditures proposed by the Republicans? In other words, do we, as a nation, wish to sell our birthright of free enterprise and competitive economy for a mess of potage, via the tax cut reform legislation proposed by President Kennedy?

No one denies that in times of depression it may be right to adopt a policy of great public expenditure, of tax reductions, and cheap loans, to rouse and stimulate economic activity once again. This has become a very firm tool of modern economic policy that allows for cyclical development.

We are forced, however, to a realization that it is an illusion to believe that continuous economic growth and persistent prosperity can be achieved by a trick, that is, by a creeping devaluation of money. Those who live in terms of such hopes are subject to the same fraud and fallacy as the child who thinks that the conjurer could, indeed, produce an abundance of interesting articles from an empty tophat.

Continuous economic growth can only be achieved by work and by saving. Everything else is just a legend, a fairytale, a fraud, or a bluff.

We, as a Nation, have grown old enough not to believe in fairytales. The very legend of this country shows it was built upon a solid rock of work and saving. When we fell into the fairytale existence during the twenties of easy-money speculation, we found this to in-

[P. 17148]

deed be a fraud when we reaped the harvest of the depression of the thirties.

If we believe in the Kennedy administration fiscal policy fairytale—that we can spend more but tax less, and that this will promote a growth in our economy, we will find again that this was indeed a fraud and a bluff—built upon the discredited legend of the Keynesian-mercantilist economic theory.

I cannot believe the American public will be taken in. I hope the Congress will not be so taken. I think we should overwhelmingly call the bluff of President Kennedy and his economic theo-

rists' and force them to accede to a statutory restraint upon future Government expenditures.

Mr. BROYHILL of North Carolina. Mr. Chairman, this bill today places the country at the crossroads. It leads to a path of fiscal experimentation marked only by high hopes and hazy reasoning. A tax revision and tax reduction bill such as this cannot be considered in a vacuum. It is related to Federal spending whether we like it or not.

Ever-increasing Federal spending has become a habit. In my opinion, we are seeing in the debate on this bill, the chance of taking the first step toward breaking a national addiction to this habit. The opportunity is here before us and it is starkly simple. If we want a tax cut, and there is not one American in his right mind who does not, we want it to be meaningful. We want it to be a genuine help to our economy and to lessen the burden the American people are carrying. However, if we cut taxes and mouth a few platitudes about economy that will be quickly forgotten, we will certainly be abdicating our responsibility to the American people. Now is the time to face up to the fact that a tax cut will mean little or nothing if we do not have careful spending controls at the Federal level.

I am convinced that many Americans are deeply concerned about this debate today. They are "living scared," as one constituent wrote me in opposition to the economic tinkering and irresponsibility he sees in Washington.

Another constituent stated the case as well as I think it will be put by anyone here today. He said:

This tax cut bill makes me much more profligate. Now, I am Dr. Jekyll and Mr. Hyde at the same time. As an individual, I should have a high sense of duty, educate children, provide for the future progeny and hold in reserve some loose change for emergency—Dr. Jekyll. But I owe \$1,000 of "store" credit and buy everything from a car to a toaster on "lease-purchase." As a U.S. national (Mr. Hyde) being one of 50 million heads of families, I owe, of U.S. direct debt, \$6,000, and probably \$15,000, including guaranteed debt, with no indication that I ever intend to pay. I would get a tax reduction of \$200, and add to my debt \$500. As individuals we must be rational but as U.S. nationals frenetic—mad as a March hare in September. As an individual with a high sense of duty, think of what you can do for your country—not what your country (you as a U.S. national) is doing to you.

When we recognize the Jekyll and Hyde game we are playing and the consequences of it, I think we will face up to our responsibilities. A lid on spending imposed today by the House would be one

of the most hopeful signs of a return to sanity in Federal affairs that we have seen in a generation. Once the shock wore off, the gratitude of the American people, I am confident, would be resounding.

Mr. BENNETT of Florida. Mr. Chairman, I am convinced that a tax reduction for individual citizens and business is needed for a more healthy economy and for more adequate business and job opportunities. It is certain that taxes on business today are a great deterrent to business expansion and that they stifle consumption by individuals in lower income brackets.

The Department of the Treasury, many prominent economists, and the House Ways and Means Committee believe that this tax bill for 1963, through reduced rates applied to a more prosperous economy, would actually yield increased total receipts to the Treasury. Although such complicated finances are not in my personal experience it is certain that Congress and the President can hold down the cost of Government.

The President has the tools for keeping economy in Government, through the veto, withholding money from projects, and his control over the Bureau of the Budget. Congress has great power to cut back expenditures as it must make all appropriations.

We have the choice of meeting the challenge for fuller employment and better business by stimulating free enterprise, or by increasing greater centralized government by spending more Federal money. As the Ways and Means Committee pointed out, we should not undertake both tasks at the same time. It seems better to me to stimulate the economy by reducing personal and corporate taxes rather than by massive Federal spending programs.

As one Member of Congress I plan to do my best to hold down expenditures. Already this session I have voted against about \$15 billion in spending. For the remainder of 1963, I am presently of the opinion for fiscal, if no other reasons, that I should vote against expensive programs such as the Area Redevelopment Administration, foreign aid, the farm program, Domestic Peace Corps, and the National Service Corps.

This is not a simple problem to solve but, on balance, I think we should try it. Our 1954 tax reduction did pay itself out by increased prosperity. And it has worked in several foreign countries in recent years. But our biggest challenge is to cut Government spending. I plan to do my part.

Mr. WHARTON. Mr. Chairman, popular issues come and go and I have

studied the work of our Ways and Means Committee for some time and with considerable interest in connection with the pending tax bill. Recently a great debate raged over conflict of interest among our Members. Ironically, we now have the granddaddy of all conflicts before us, for the simple reason that each and every Member of Congress happens to be a substantial taxpayer and has a vital and personal interest in the outcome of the proposed legislation. Were matters otherwise, our democracy would indeed be in a bad way.

Now we find another and a comparatively simple national issue presented to us today, but it is not that of simply cutting taxes. A tax reduction in itself would surely have the unanimous support of each and every Member present in this Chamber today. The real issue before us, thanks to our profligate spenders, is whether we shall take this step toward increasing the national debt, already in excess of \$305 billion, by at least \$11 billion annually. Indeed, from the country's unsavory spending habits of recent years, a better estimate of the logical increase might well be \$20 billion each year, with continued inflation and skyrocketing consumer prices a certainty. This, I find, the majority of my constituents do not want in spite of the bait, the carrot of a tax cut, that is being dangled before them.

Now I understand that a choice is to be presented to us in the form of a motion to recommit the bill and I want my position to be crystal clear and unequivocal. No. 1—an ironclad amendment must be added to the bill putting a ceiling on governmental spending and wasteful and nonsensical programs such as come to our attention every day. Secondly, and with this welcome restriction, I am sure that my constituents will gladly overlook my conflicting interests and await with great expectancy, the long-promised forward movement of our young administration. And I might add parenthetically that I, for one, am prepared to stay right here until Christmas or longer, to protect my strong convictions as expressed by the wasteful spending amendment.

I am confident that we have many responsible Members on both sides of the aisle who will respond in similar vein to this unmistakable mandate from the people back home.

Mr. McLOSKEY. Mr. Chairman, failure to place a limit on mounting Federal expenditures leaves me no alternative but to oppose H.R. 8363. I submit to you that without these limitations we are giving to the American taxpayers a "pig-in-a-poke."

Federal expenditures have risen from estimates of \$78.9 billion for fiscal 1961 to an estimated \$102 billion for the next fiscal year, and, the national debt has risen over the same period from \$289 billion to close to \$315 billion by next June 30. This means an additional billion dollar interest payment on the debt each year alone.

I further submit to you that I personally feel our taxpayers will be sadly misled if they feel passage of this bill will mean a tangible increase in take-home pay.

Let us all remember that social security tax will rise automatically next January. From figures I have been able to obtain there also are signs which indicate local and State taxes will rise at record rates. Taking all of this into account the average taxpayer will receive only a mere pittance in additional take-home pay.

[P. 17149]

I should also like to remind my colleagues that during the 8 hours of debate on this tax bill, our Government, your Government and mine, has gone further into debt at the rate of \$17,000 per minute or over \$8 million while we discuss the pros and cons of this measure.

My objection to this bill I believe is sound, and while I admit all of us need relief from high and complicated tax legislation, I honestly and sincerely believe we need relief from Government expenditure and debt even more.

In conclusion I say this bill does not give adequate relief. It does not simplify the overall tax picture.

Neither does it pledge cuts in ever-increasing Federal spending. If we are to have a tax cut which will really have any real meaning to our taxpayer we also must cut Federal spending.

Until I have proof that the President and this Congress take positive steps to really assure me this will happen, then I feel in good conscience I must oppose this measure.

Mr. MURPHY of New York. Mr. Chairman, I rise in support of the bill. The stated purpose of the Revenue Act of 1963 is to remove from the private sector of the American economy its present high-tax straitjacket; that is, to lessen restraints which prevent the American free enterprise system from itself generating necessary growth. A purpose of this bill also is to improve the equity of the tax laws; that is, to remove features of the tax code which generally are considered to be unfair and to revise others to remove inequities. Thus, it is intended that the influence

of tax provisions on business decisions be minimized.

In essence the Congress is modernizing our revenue laws to keep pace with the dynamic influences in our great democracy. A study of employment statistics shows a national total of 52,904,000 jobs in 1957 and 55,325,000 in 1962, a rise of 2.4 million. Of this increase, 1.6 million was in government employment, and almost all of the increase in government jobs was accounted for by a 1.4 million rise in State and local government jobs. In other words, two-thirds of the growth in jobs in the economy from 1957 to 1962 has been growth in government jobs, and almost all of this has been a 60 percent growth in State and local government jobs.

Just where are we heading if we fail to enact corrective legislation to meet these glaring conditions?

Labor charges that automation is reducing job opportunities open to American workers. And yet until the enactment of last year's Revenue Act in which the investment credit provisions, coupled with liberalized depreciation, spurred the economy to such an extent that 42 percent of the new plant equipment expenditures was directly attributable to the allowances provided in the legislation. Formerly business was reluctant to retool, expand and to update its plant equipment, to provide more work opportunity for Americans mainly because it just did not have the money left after costs and taxes.

Our Secretary of Commerce graphically illustrated this in his statistical report showing that Japan, West Germany, and the Soviet Union were outstripping us in terms of modern equipment.

Last year's act, however, was a stimulant to business, whereas this year's act gets to the base of our economy and provides increases in consumer purchasing power as well as assistance to business. The above statement emphasizes that State and local governments were supporting the employment market by creating the marginal number of jobs to keep unemployment as low as it has been in the recent past. In essence, the private sector is not keeping pace with the growth of the country, hence a solution must be forthcoming and I strongly feel that this act, the act which does not utilize the often used and often unsuccessful pump-priming technique, is the answer.

Yesterday my eminent colleague from New York, and a member of the committee, stated, and I want to reemphasize his considered opinions, that:

Legislation involves the "art of the possible." In every instance where major

proposals, such as the momentous one pending before us today, have been presented to this Congress by a standing committee of the House there is obviously and necessarily involved a considerable degree of concession on all sides. It is rare, rare, that any member of a standing committee having jurisdiction of as vital and sensitive a subject as our committee has, can come before the Committee of the Whole and say to its Members that "with every provision of this bill I am in complete mental agreement." The nature of our legislative process is such that decisions must be made in order that legislation might move forward. This is as it should be, and this, Mr. Chairman, is the representative way. So it is today with this most comprehensive and most important piece of legislation now pending before the committee.

I concur most emphatically with his venerable and sage judgment and might add here that if every law proposed before this House satisfied every segment and point of view represented herein, no legislation would ever pass.

The charge stated on the floor yesterday that big business is the major recipient of aid under this act is easily refuted by the committee in an examination of its analysis of the revenue impact of the legislation. In effect:

This bill over a 2-year period is expected to reduce revenues by \$11.1 billion of which \$2.2 billion goes to corporations and \$8.9 billion to individuals.

This simple statement certainly is testimony to the fact that this bill not only has a head but a heart. The purpose is definitely to increase consumer purchasing as well as business expansion. There are structural changes as well as rate changes to update our regulations.

The assistance to the aged taxpayer by permitting him to exclude from the tax base the gain on up to \$20,000 of the sales price on a personal residence certainly is a necessary recognition of the loss in earning power after the age of 65.

The child care expense deduction increase recognizes the problems facing many of our present-day families with working mothers.

The revision of the administration's charitable contributions deductions provides a commonsense approach which will not hurt our many institutions and charities who are dependent on this income as a major source of financing their necessary work.

A little known fact this year, but strongly stressed last year was the fact that 30 million Americans are on the move yearly and there are provisions made for deducting certain moving expenses and transportation of household goods.

Our thrifty, frugal and often forgotten investors and stockholders are recognized and their interests appreciated by the reduction of the capital gains so that 40 percent of the gain will be included in the tax base for assets held more than 2 years, rather than 50 percent and that the alternative rate of tax on this will be 21 rather than 25 percent.

I want to applaud the committee for its long deliberations and careful analysis of every part of this act. The 9 months of hearings were well spent and provided us with the means to meet the changing conditions of America. We must broaden our industrial base and we must increase our consumer purchasing power. This act will certainly be the "critical stone and the bedrock upon which we will erect an economic superstructure that will do justice and credit to this Congress."

I urge, therefore, Mr. Chairman, that the committee unanimously support this bill.

Mr. WATSON. Mr. Chairman, as the great majority of our citizens, I strongly favor a tax cut; however, my concern for fiscal responsibility and a curtailment of Federal expenditures is equally great and, in the absence of more firm assurances than those currently in this tax reform and reduction bill that spending will be reduced, I shall not be able to vote for its passage.

This is a difficult decision to make because I realize all too well that income taxes are entirely too high; but at the same time we must recognize that this condition is attributable in large measure to the uncontrolled and reckless spending programs of our Government. There is little question but that a tax cut would provide a stimulus not only to our economy but also to the morale of our people. Too long have they been struggling under an oppressive tax load, not the smallest part of which is the confiscatory income tax, and they are entitled to a reduction.

Nevertheless, it is difficult, if not impossible, for me to anticipate how this Nation can ever hope to make any headway toward a reduction of our gigantic, ever-increasing national debt and achieve a balanced budget unless this tax reducing measure includes a provision for curtailment in spending.

For some to say that the proposed amendment designed to achieve the desired goal of reduction in expenditures is imperfect is to evade the issue. I daresay that this Congress, regardless of

[P. 17150]

its wisdom, has never enacted a so-called perfect piece of legislation; but I believe

that the strong opposition to this provision eloquently attests to the fact that it would be of substantial benefit in putting a bridle on those who champion irresponsible spending. It would be a dereliction of our responsibility not to make the effort regardless of the imperfections of this provision.

Unfortunately the rule under which the House is considering this tax bill provides for only one amendment for there are, no doubt, others as I who would like to have the opportunity to propose amendments to section 2, or the tax reform section of this bill, which, if enacted, will result in an approximate \$900 million additional tax burden on our people. Nevertheless, the closed rule has been adopted by the Congress over my objection, and if we are to act responsibly there is no alternative but to accept the provision making the tax reduction contingent upon a revised administrative budget estimate of \$97 billion for fiscal 1964 and a budget estimate not in excess of \$98 billion for fiscal 1965.

I share the feeling of so many of my colleagues regardless of party affiliation, for this is and should not be a partisan matter, that the inclusion of limitations on original spending estimates will serve as a strong deterrent to unjustified increases in Federal spending. A tax cut accompanied by a tight rein on expenditures would more adequately solve the problems of Federal deficits, unemployment, and the serious drain upon our gold reserve.

Mr. Chairman, it should be further noted that the gentleman from Virginia, the distinguished chairman of our Rules Committee, has stated that the expenditure measures already passed by this Congress and those now pending before his committee for new or expanded programs would total more than \$3 billion in new spending for the current fiscal year. Additionally, a 5-year projection of these new and expanded programs would amount to approximately \$17 billion.

Accordingly, it is impossible for me to reconcile the contention of those in authority that they want to keep spending at an absolute minimum when there has been no lessening of pressure for the passage of these pending measures. In fact, we should recall that there was severe criticism of this body by the President for the recent cut in the foreign aid authorization. Also, the President, in a recent address to some 400 business executives, urged them to "join with me in seeking to reverse these disastrous cuts."

This to me represents the height of inconsistency. How can we on the one hand continue to spend and spend while

on the other hand we reduce our sources of revenue? Admittedly, there are those who profess to believe that such a course of action assures an even greater ultimate return, but to me it represents fiscal irresponsibility of the highest order. A tax cut alone, in my opinion, cannot stimulate the economy sufficiently to offset resulting revenue losses at a time when a balanced budget is desperately needed if not absolutely essential to our economic survival.

It is true that promises have been made by those in positions of great authority that all but essential expenditures will be curtailed, but I submit that if this expressed intention is genuine it has not been accompanied by a lessening of pressure or support for many new spending programs or the expansion of old ones. Words of promise are shallow and must indeed be taken lightly when actions are so inconsistent with stated objectives.

Mr. Chairman, let me repeat that I am in favor of a reduction in both personal and corporate taxes. This has been long overdue, but in supporting the move to restrict simultaneous expenditures I am acting in what I believe to be the best interest of our Nation and upholding my pledge to the constituents of my district to fight for a return to a sound and sane fiscal policy. To do otherwise would be inconsistent with my previously expressed demands and votes for an end to excessive spending.

Let me make it explicitly clear that I have the highest regard for the gentleman from Arkansas, Chairman MILLS, and his committee in their promise to take a hard look at expenditures, but I likewise strongly believe that the Congress should specifically set out in this bill such a provision. Therefore, I strongly urge the inclusion of these specific safeguards in this measure.

Mr. ULLMAN. Mr. Chairman, I strongly support the tax bill before us today, but wish to express my concern over provisions relating to regulated utilities with respect to the investment tax credit enacted last year.

My colleagues on the committee will recall that last year I opposed extending the investment credit to regulated utilities. As I said then, since utilities are regulated monopolies, with guaranteed rates of return and with a responsibility to provide all the investment needed to meet demand, there is no valid reason for offering them a tax incentive to do what they are required to do anyway.

Despite the clear economic facts, utilities were given the investment tax credit last year. The justification for an investment credit is that it actually stimu-

lates plant expansion and other capital investment, which would not otherwise be done. The facts already demonstrate that the investment credit has not and will not induce new capital spending by utilities.

The June 1963 issue of "Survey of Current Business," published by the Department of Commerce, discussed the subject of new plant and equipment expenditures and contained some illuminating facts:

All but one industrial classification listed showed an increase in capital spending in 1962 and 1961. The one exception was public utilities, which actually showed a slight decrease.

Critics might contend that the investment credit is too new, that it is too soon to determine if utilities will actually be stimulated to increase their capital spending as a result of the investment credit. To this, let me point to the "Survey of Current Business" article which states "public utilities' plans for 1963 indicate little change from either 1961 or 1962."

The article added, concerning electric utilities:

A rising trend throughout the year is projected but at a rather moderate rate. The total for the year (1963), as now planned, would fall substantially short of the 1957-58 records.

Gas utilities' outlays—

The article continued:

are expected to dip below not only last year but also all other years since 1956.

I also want to point out that the Edison Electric Institute, the trade association of private electric utilities, has reported that capital spending by privately owned electric utilities totaled \$3,154 million in 1962—a decrease of 3.1 percent from the 1961 level of capital spending.

It therefore seems clear that the investment tax credit is not a stimulant to new capital spending by public utilities. It appears obvious that utility requirements predicated on consumer demand, will continue to determine when and how much utilities invest in new plant and equipment, regardless of plant structure.

The investment credit thus becomes nothing more than a subsidy for utilities. I am hopeful that Congress might take a new look at this aspect of the investment credit.

Mr. BARRY. Mr. Chairman, today we are being asked to approve a tax cutting bill that can help America grow. As one who has had an interest for many years and whose preoccupation in former years was in the field of tax policy, I believe tax reductions are necessary to en-

courage businessmen to invest more in expansion.

There is no doubt that a tax cut at this time would encourage the public to buy more of our Nation's goods.

It cannot be denied that the Federal budget must be reduced. Our great-grandchildren must not be saddled with unmanageable debts.

Our Nation's economy is suffering from high tax rates imposed under the stress of war. Like the temporary buildings blighting this city, wartime taxes have tended to become permanent.

The President has promised to reduce unnecessary spending, if the Congress approves this tax-cutting bill. Let us pass the bill and then enlist his help to reduce spending. Each time an appropriation bill comes before the House, we will have an excellent opportunity to help achieve this noble aim.

Congress and the President working together should be able to provide economy in Government.

Here we have an opportunity to put increased purchasing power where it belongs—in the hands of the people. This is an opportunity to unleash the dynamics of our great free enterprise system.

On September 23, 1963 the president of the National Association of Manufacturers wrote to our distinguished col-

[P. 17151]

league the gentleman from Wisconsin [Mr. BYRNES]. He pointed out that tax cuts are just as much needed as increased fiscal responsibility at all levels of Government. A copy of this letter follows:

NATIONAL ASSOCIATION OF
MANUFACTURERS,

New York, N.Y., September 23, 1963.

The Honorable JOHN W. BYRNES,
The House of Representatives,
Washington, D.C.

DEAR MR. BYRNES: We strongly support your efforts to develop a greater sense of fiscal responsibility in our Government through control of Federal expenditures.

As you know, for several years our organization has been urging Congress to provide sound tax rate reform to lessen the burden on the Nation's economy and facilitate a more rapid rate of economic growth. An improved economic level is essential to insure employment of all citizens willing and able to work.

We have been equally vocal in calling for fiscal responsibility in Government and consider this no less important than tax rate reform.

Therefore we support in principle your efforts to tie a requirement for expenditure control to the introduction of tax reduction. However, this Nation badly needs a tax rate reduction at this time and failure to achieve it could have tragic consequences. At the same time we are in equal need of strong

Federal expenditure control to protect our fiscal position.

Therefore if you call for enactment of legislation that will give the Nation a tax rate reduction only if fiscal responsibility is demonstrated by standards to be met, we ask that you urge the many Congressmen of both parties who will follow your lead to adopt a firm commitment to the American voter that you will exercise your congressional powers and not approve a 1965 budget that exceeds the standards you have set and limit expenditures in 1964 likewise through your powers of appropriation.

The power to control the purse strings of the Federal Government is vested in the Congress and we applaud your efforts to urge that Congress exercise that power.

Sincerely,

W. P. GULLANDER,
President,

The present tax bill is woefully limited and lacking in many respects. The exclusion of the 4-percent dividend credit in the present bill is a serious omission and the reduction to middle incomes is nowhere near what an equitable tax policy would require.

The tax bill should be recommitted to the Committee on Ways and Means for a more equitable tax bill. Since this is not now possible under the rule the next best partial solution would be to vote for recommitment with instructions that require the President to exercise fiscal responsibility in submitting his budget to the Congress.

However, notwithstanding the outcome of the recommitment vote, the great overriding issue today is that a tax reduction points in the direction of less government and more economic freedom for the individual and the free enterprise system.

The tax reduction bill should be passed.

Mr. HARVEY of Indiana. Mr. Chairman, the House today must decide an important question; namely, whether it is willing to face up to a policy of fiscal soundness for our Federal Government or whether we are going to continue down the road to bankruptcy. It is that simple.

The proposed tax reduction would certainly be a most welcome one to about all of our taxpayers who have been overburdened for many years. But such a tax reduction, as it is proposed without the amendment which will be offered as a recommitment motion, will be passing on the inevitable deficit we will create for our own children and grandchildren. The purpose of this amendment is to pledge to our own citizens that we will hold expenditures in line with the expected reduction in revenues.

Therefore, if this motion should not

carry, I must vote against the bill itself.

Mr. LANGEN. Mr. Chairman, a reduction in tax rates should have reasonable prospects of becoming permanent. But I have grave doubts as to how permanent the reductions contained in the bill before us would actually be unless there is an abrupt change in thinking in both the administration and the Congress relative to spending. The object of the bill is one of reducing the tax rates in order that we might stimulate the economy by a lesser tax burden. But this can never become permanent unless we reduce spending. None of us wants to return here and raise the tax rates again at a later date, which would be an injustice to the citizens of this country. Therefore, we must weigh carefully the consequences of our actions today. We must be assured that a reduction in spending becomes an integral part of our thinking.

I have said on many occasions throughout the years that our steeply progressive tax rates are burdensome and that many inequities exist in our tax system. I also have said in the past and say again today that I want a tax cut as badly as the next citizen of this country. But if such a cut is to bring about constructive results for our people, the overall spending policy of the Government must be brought in line to justify such reductions. But all of the indications during the past several years have convinced me that we are pursuing a policy of expanding Government spending to the point of where it is difficult to understand how a tax cut could possibly be accomplished.

As our colleague from Wisconsin [Mr. BYRNES] so aptly put it, the bill represents a radical departure from accepted fiscal practices. It is the first time an administration has advocated borrowing money from the people in order to give it back in the form of a tax cut. And as our colleague so ably pointed out yesterday, there is serious doubt that we can long continue to find an adequate source of money from which to borrow.

I simply cannot understand or subscribe to the theory that planned deficits of large proportions will bring about a permanent increase in economic growth. Such a theory ignores the risks involved if the predictions fail to materialize. We must consider carefully the consequences of such a failure; inflation at home, collapse of the dollar abroad and an eventual overall economic collapse.

I should agree that a tax cut is personally desirable, but we and all of the people of this Nation ought to concern ourselves with how reductions in Government spending might be accomplished so that a tax cut could be justified.

This tax bill proposes to reduce taxes by more than \$11 billion, at a time when we are already facing an annual deficit of \$9 billion in our Federal budget. According to testimony before the Ways and Means Committee by the Secretary of the Treasury, the administration plans increases in expenditures of at least \$3 billion and more likely \$5 billion per year for each of the immediate years ahead.

I have noted with pleasure the expressed desire that we favor a reduced tax burden so that the private sector might flourish and prosper and so generate our economy and job opportunities. It has also been said that we might have less Government control and regulation. This very desirable objective cannot be accomplished by tax reduction alone; it can only be done by limited Government spending and less Government programs. Is there anyone in this House who believes that we can achieve this goal if the House will not even declare itself to the extent of limiting the expenditures to an increase of \$4.5 billion over last year's expenditures. We have an opportunity today to declare our intention to be sincere in providing a reduced Government burden to individuals and business enterprises throughout the Nation.

It is a bit surprising to hear the arguments in favor of a tax cut without a curb on spending, when just a bit over 3 months ago we listened to arguments in favor of increasing taxes. I am referring to the yearly extension of excise taxes, passed in this House on June 13. What we did that day was to increase taxes that are paid by the consumers of this country, the very people we say we are trying to help today with a tax cut. We raised corporate taxes from 47 to 52 percent, which I noted then was a strange action for an administration and a Congress that wanted to help stimulate the economy. We increased taxes on automobiles from 7 to 10 percent. We put a 10-percent tax on telephones.

The excise taxes we enacted in June would have helped the lowest income group, a group that is not even affected by the tax-cut bill before us today because the lowest income group does not pay income taxes.

We raised taxes in June, you want us to reduce taxes in September, and we are still waiting for the needed tax reforms that should have been a part of any tax legislation to be considered.

Now, I am not so naive as to say the tax-cut bill before us would not reduce taxes for a good segment of the population. But I certainly believe the benefits to be received by an individual tax-

payer have been pictured way out of proportion. The President spoke of the average family of four with an income from wages of \$8,000 a year. He said this family would have money to spend on such items as a new dishwasher, or a new spring wardrobe, a washing machine, or [P. 17152]

a longer vacation trip, or the downpayment on a new house. He said it might enable them to pay installments on a new automobile.

It is apparent the President never lived on an annual income of \$8,000 and never bought a car on the installment plan. The fact is that his typical family with \$8,000 a year income will find a tax cut under this bill of about \$4 a week, part of which will be further reduced by an increase in social security taxes and probably by an increase in his State income taxes. You cannot even pay for the insurance on that car with what is left, much less pay the installments. We are leading the American wage earner into expecting something he simply is not going to get.

In addition, certain "revenue raising" provisions of the bill will result in additional reductions in the amount a taxpayer gets to keep from the tax cut. Those taxpayers who itemize deductions on their Federal income tax rather than claim the standard 10-percent deduction, will no longer be allowed to deduct specific State and local taxes such as gasoline, auto license fees, and operators' permits.

Much of the so-called tax cut actually is not a cut at all, or even a reduction, but is merely a redistribution of tax moneys. Certainly our States can use and will welcome additional revenues with which to perform many of the functions that are in their domain, relieving the Federal Government from further participation in local affairs. But let us at least admit what we are doing and not fool the American taxpayer into believing that a bonanza is on its way.

Before enacting the bill before us today, we must seriously attempt to answer some of the questions that automatically come to mind when we are asked to subscribe to a theory of stimulating the economy through a combination of tax rate reduction and continuing high rates of Federal spending. Would an inflationary spiral be triggered so that tax reductions would be eaten by price increases? What would the financial position of the country be if the increases in revenues fail to materialize? What effect would this have on the value of the dollar and the continuing outflow of our gold? Do we need to guard against the

possibility that the modest savings we pass on to individual taxpayers today become burdens to future generations through the cost of increased deficits plus interest?

Mr. Chairman, there is only one way in which we can offer assurances to future generations, and that is to make sure that our expenditures are in balance with the potential tax revenues. Without such assurance, we are taking a very grave risk indeed.

Mr. KING of California. Mr. Chairman, both before and since President Kennedy spoke to the Nation on television the other evening about the urgent need for a tax cut, we have heard a great deal about Government spending. Much of this talk has maintained that the administration of President Kennedy has spent more than was necessary, or failed to exercise proper expenditure control.

I think all of us here know that, while Congress has the major say on spending, a great deal depends on the President and the administration. There is no question about that.

I think we all realize too that any responsible consideration of this matter, even in the heat of partisan debate, should be based on facts. We have heard far too few facts in the last few days. For that reason I would like to take a few minutes to talk about spending. I will not talk in slogans, I will simply state facts. Here they are:

First, this is a growing Nation, and as such we can expect that the budget will grow too. President Roosevelt outspent President Hoover, President Truman outspent President Roosevelt, President Eisenhower outspent President Truman. President Eisenhower himself commented in his budget message for fiscal 1960, and I quote:

Inescapable demands resulting from new technology and the growth of our Nation, and new requirements resulting from the changing nature of our society, will generate Federal expenditures in future years. * * * We must not forget that a rapidly growing population creates virtually automatic increases in many Federal responsibilities.

And on December 1, 1959, President Eisenhower's Budget Director Maurice Stans, was even more specific. Let me quote his words at that time.

Even if the next session of the Congress doesn't add any new programs, the level of Federal spending is going to be up. The reason is that there are builtin increases in existing programs which are now producing a continuing up-curve in expenditures. The catalog of builtin increases cover such programs as outer space, civil aviation, merchant shipping, urban renewal, science education, medical research, public assistance, loans to underdeveloped countries, and veterans'

pensions. Interest on the public debt will run higher, and the farm program will cost more and more until we get realistic legislation. Defense technology is putting increasing pressure on expenditures. Now, for 1961 alone, these builtin increases amount to between \$2 and \$2½ billion.

That is the background against what any program of expenditure control must be considered—that the budget increases from year to year whether Democrats or Republicans are in office. The budget grows because the country grows.

The first fact I would like to draw your attention to is that while our population has increased, Federal employment during the present administration has been held to a minimum.

Only yesterday President Kennedy, at his Cabinet meeting, in ordering further efforts to limit increases in Federal employment, noted that in the year ended June 30, Federal employment grew by only 5,600. Had it increased at the same rate as population it would have increased about 40,000 and if it had increased at the same rate as employment in State and local governments it would have grown by 100,000, but in fact it grew by only 5,600. At that meeting he ordered Budget Director Gordon to take the lead in developing what he called "new and tighter employment targets" for the current fiscal year—targets which will require even more efficient utilization of existing manpower.

During the last 2 years, increases in Federal employment have averaged less than 2 percent a year, compared to recent annual increases in the State and local level of about 5 percent. This was done in the face of a population growth which will add 10 million people to the population of the United States between the time that President Kennedy took office and the end of the current fiscal year.

This is in keeping with his pledge to keep Federal employment within prudent limits as an accompaniment to tax reduction. As he said earlier this year, if his tax program is enacted, and again I quote:

Any necessary increases in Federal employment will be kept proportionately lower than the increase in the Nation's population, the increase in State and local government employment and—through efficiencies in management and operation—the increase in the Federal workload required to serve the Nation.

The second fact I would like to call to your attention is that President Kennedy, in his first 3 years, has actually done more to hold down spending than President Eisenhower did in the 3 preceding years.

When you leave out spending for space, defense, and interest, budget expenditures for all three Kennedy budgets will increase by only \$4½ billion—half a billion dollars less than the increase for the last 3 Eisenhower years.

The third fact I want to point to is that in preparing the 1964 budget, requests for new obligational authority of civilian agencies alone were cut by \$6 billion, and further cuts have been recommended since the budget was submitted. In fact, apart from defense, space, and interest on the public debt, President Kennedy actually proposed an overall reduction in expenditures, something attempted in only 3 out of the last 15 years, at a time when State and local government expenditures have been increasing at about 7 percent a year.

The fourth fact I want to point to is that this record of expenditure control reflects persistent efforts to hold costs down. This is particularly evident in the Defense Department, which accounts for well over half of all Federal spending. Secretary McNamara, at President Kennedy's direction, has instituted a highly successful program of cost reduction in the Department of Defense. This formal program, which is now 1 year old, is intended to produce substantial savings in both procurement and management. Secretary McNamara has already indicated that in the first year alone actions were taken which resulted in savings of more than a billion dollars, and further actions will eventually bring estimated annual savings to \$4 billion. These savings have not, and will not, be achieved at the cost of national security, nor are they vague estimates of future economies. The costs of necessary advances in defense programs in future years will be offset by these programs as they materialize.

[P. 17153]

This program of expenditure control was carried out despite increasing demands in the defense area. For instance, we have all heard a great deal lately about the nearly \$10 billion reduction in spending between fiscal 1953 and fiscal 1955—\$9.7 billion, to be more accurate. In none of these references has it ever been hinted that this entire saving resulted from the reduction in national defense programs at the end of the Korean war.

President Kennedy, on the other hand, did not have the opportunity to make a \$10 billion cut in defense. Quite the contrary. One of the first moves of his administration was to increase our military capability. This increase stood us

in good stead during the Berlin crisis of 1961 and again in the Cuban crisis of last fall. It was, however, expensive in that it raised—not reduced—our annual defense budget by some \$10 billion.

To speak intelligently of expenditure control requires a better understanding of what the phrase means than has been shown in the arguments over expenditure control. Expenditure control means exactly what it says—control over expenditures exercised through use of priorities, through efforts to increase efficiency, through elimination of waste, and through other measures which have proved productive or which show promise of results. Expenditure control consists in determining, on the basis of the best information available, which Government activities are necessary and then through the use of the best techniques available, getting the most for the money which has to be spent. It is an exercise in responsible government in which all the interests of the public, both short and long term, are balanced against one another as decisions are formulated.

There is nothing in the term "expenditure control" which implies hacking a slice of a given size out of the budget or sealing the budget off at a certain arbitrary level. Yet this is the approach to the budget which the proponents of this amendment are taking—they would "slash" the budget even before they know what it will be.

These advocates overlook the fifth fact I want to mention, which is simply, as the gentleman from Arkansas, Chairman MILLS, pointed out in a statement which President Kennedy publicly subscribed to, that the tax cut route is being put forward as an alternative to increased spending. Further, this alternative is proposed within the framework of an excellent beginning in expenditure control and the firm promise of the President to press even harder on this program as a logical accompaniment to tax reduction.

The gentleman from Arkansas, Chairman MILLS, emphasized that tax reduction is far superior to increased Federal expenditures as a means of stimulating the economy because it increased the role of the private sector of our economy, rather than increasing the role of the Federal Government. I think the nature of this choice is one that those who favor amending this bill should consider carefully.

As President Kennedy told the Business Committee for Tax Reduction earlier this month, and I quote:

If this program isn't successful, then other means must be suggested. And it seems to me that those who are interested in the development of the private economy, those who

are interested in a responsible growth of our economy, those who are interested in containing our balance-of-payment problem those who are interested in preventing another recession, should favor this bill this year.

The fact of the matter is, and you are also familiar with this, in 1958 it was expected when the budget was sent up that there would be a half billion dollars surplus, and yet we ended up that year, as you remember, with a \$12.5 billion deficit. The reason was the 1958 recession. Now, do we have to have another recession to prove this lesson to us and to learn it the hard way?

This brings me to my sixth and final fact—that expenditure control is a joint product of Executive proposals and congressional appropriations. Those two are much more likely to reflect effective expenditure control at a time when the private economy is expanding rapidly and providing more jobs than at a time when unemployment is high or increasing. I could put this even more bluntly, by pointing out that during this postwar period we have had a recession beginning, on an average, every 42 months, and in November 42 months will have elapsed since the beginning of the last recession. Statistically, you might say, we are now living on borrowed time.

There is at present no indication that a recession is imminent. There may be some difference of opinion as to whether some of the economic indicators are holding firm, but the general mood of the Nation is one of confidence. Nevertheless, the tax bill offers us a very important sort of recession insurance. Like any kind of insurance, it would not prevent an unwelcome event from happening. But it could provide the same kind of assistance as the tax reduction of 1948 and 1954 in softening the blow and speeding the recovery. As the President pointed out a few days ago, it is not an expression of wisdom to delay the acquisition of insurance until the unwelcome event occurs.

Permit me to quote at this point the Under Secretary of the Treasury, Henry H. Fowler, who said of the relationship of the tax bill and a possible future recession last week:

If employment and output are already below par before a recession begins, even a moderate downturn can carry us to lower levels of economic activity than would otherwise be likely. If, for example, right now we went into a downturn of the proportions of 1957-58, it has been estimated that unemployment could increase to something like 8 percent of the labor force, and the gap between actual and potential output could widen from \$30 billion to something like \$60 billion.

Furthermore, it is quite possible that the tax bill could actually avert a recession which otherwise might occur. It is generally ac-

cepted that the effectiveness of antirecession measures depends a great deal upon how soon they are brought into play. It certainly stands to reason that the most effective time of all is before the recession begins. I think without question that the expectation of broad tax reduction has already played some part in the economic advance of 1963. Correspondingly, of course, any delay or postponement or threat to dilute or truncate the tax program could be expected to have a dampening effect on public confidence. * * * The tax bill is the best possible measure we could adopt to minimize the possibility that a recession will occur in the near future or to lessen the harmful effects of such a recession if one did occur.

Mr. Chairman, I would now like to discuss the dividend credit and exclusion.

A. EFFECT OF TAX BILL PROVISIONS ON DIVIDEND RECIPIENTS

First. Two-thirds of all dividend recipients would be the same or better off because of the additional dividend exclusion under the House bill.

Present law permits the exclusion of the first \$50 of dividends—\$100 for married couples. One-third of all returns with dividends now exclude all of their dividend income. Of the 7 million tax returns with dividends in 1963, 2.4 million excluded dividends from income entirely.

The House bill would double the exclusion from \$50 to \$100—from \$100 to \$200 for married couples—and would repeal the 4-percent dividend credit.

An additional 2 million dividend recipients would be better off with the increase of the exclusion and the repeal of the credit, irrespective of any other provisions in the House bill, such as individual and corporate tax rate cuts. These 2 million taxpayers could have substantial stock holdings. Combined with the 2.4 million who now exclude all dividends, two-thirds of all dividend recipients who file tax returns will come out as well or ahead just from the House dividend provisions.

The additional 2 million would be better off for one of two reasons—either their dividends will be entirely excluded by the additional exclusion under the House bill, or the tax savings from the additional exclusion will more than outweigh the loss of tax savings from the dividend credit.

Assuming, for example, a 3.2-percent return on stock investment—the average yield on corporate stocks—a single taxpayer in the 20-percent marginal tax bracket would have to have stock holdings of at least \$375—and dividends of \$300—before the proposed changes in the credit and the exclusion would actually increase the tax on his dividends. A married couple in the same bracket filing

jointly would have to have stock holdings totaling \$18,750—and dividends of \$600—before the tax on their dividends would be increased from these changes. All those with lesser holdings, of course, would benefit under the proposal.

As another example, take the case of a married man with three children who earns \$15,000 a year. Assuming that he takes the average amount in itemized deductions for his income group, his taxable income would put him in the 26-percent bracket under the present rate schedule. Assuming a 3.2-percent return on his securities, his holdings would have to amount to at least \$23,438—and his [P. 17154]

dividends to \$750—before his tax increase from the repeal of the credit would equal his tax reduction from doubling the exclusion. At anything less than that amount he would benefit from the change.

The attached table provides additional examples of single and married taxpayers at different marginal tax rates whose taxes on dividend income would be unaffected or reduced by increasing the exclusion and eliminating the credit.

TABLE 1.—Taxpayers benefitting from an additional dividend exclusion and repeal of the dividend credit

SINGLE TAXPAYER (\$50 ADDITIONAL EXCLUSION)			
Taxpayers receiving total dividends of this amount or less	On stocks valued at (3.2 percent rate) ¹ —	And subject to marginal tax rate of—	Will pay the same or less tax because the additional exclusion is equal to the 4-percent dividend credit on dividends of—
		Percent	
\$225.00-----	\$7,031	14	\$175.00
\$237.50-----	7,422	15	187.50
\$250.00-----	7,812	16	200.00
\$262.50-----	8,203	17	212.50
\$275.00-----	8,594	18	225.00
\$287.50-----	8,984	19	237.50
\$300.00-----	9,375	20	250.00
\$312.50-----	9,766	21	262.50
\$325.00-----	10,156	22	275.00
\$337.50-----	10,547	23	287.50
\$350.00-----	10,937	24	300.00
MARRIED TAXPAYERS (\$100 ADDITIONAL EXCLUSION)			
\$450.00-----	\$14,063	14	\$350.00
\$475.00-----	14,844	15	375.00
\$500.00-----	15,624	16	400.00
\$525.00-----	16,406	17	425.00
\$550.00-----	17,188	18	450.00
\$575.00-----	17,968	19	475.00
\$600.00-----	18,750	20	500.00
\$625.00-----	19,532	21	525.00
\$650.00-----	20,312	22	550.00
\$675.00-----	21,094	23	575.00
\$700.00-----	21,874	24	600.00

¹ June-July 1963 weekly average, Standard & Poor's Corp. (500 stocks).

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Sep. 23, 1963.

Second. All dividend recipients would benefit from the overall program of tax reduction.

Dividend recipients, like other taxpayers, would benefit substantially from the overall program of tax reduction—including the reduction in individual tax rates and the reduction in corporate tax rates.

The reduction in individual tax rates would mean lower taxes for nearly all those who receive dividend income—including those whose taxes on dividends would be raised by the repeal of the credit. The relatively few dividend recipients who might have slightly higher net tax bills as a result of the change in the dividend credit are those whose dividends constitute an extremely large proportion of their total income and who thus own large amounts of invested capital. But even in this situation, since nearly all people who own large amounts of stocks also have income from capital gains, the slight increase in their taxes as a result of the change in the dividend credit would be offset by the amount their taxes are reduced by the lower capital gains rates as they sell or exchange securities.

Low income dividend recipients would also benefit from the new minimum standard deduction which would—for single people with incomes of less than \$3,000 and married couples with income of less than \$4,000—offset any possible adverse effects of changes in the dividend credit.

Even those few people who might be adversely affected by repeal of the credit and doubling of the exclusion—despite the individual tax cuts, despite the cuts in the capital gains tax and despite the new minimum standard deduction—would have higher after-tax incomes in the end. This is because the overall tax bill program—and particularly the reduction in corporate tax rates—should mean increased dividend payments and increased dividend incomes.

More specifically, the four-point corporate rate reduction would increase corporate after-tax income by 8.3 percent. If corporations continue to pay out the same proportion of corporate earnings, then dividend income of taxpayers generally would increase by 8.3 percent.

The U.S. News & World Report in its September 2 issue points out this important fact for the benefit of its readers who are investors. The magazine stated:

If you own common stock, take careful account of the rate cuts planned for corporations. These cuts can mean increases in dividends.

Suppose you are receiving \$1,000 in annual dividends from a large company. If, after the full cut in corporation rates, the company continues to pay out the same percentage of profit, you would get an additional \$80 a year in dividends.

These are the results to be expected from rate changes.

The interesting fact, however, is that only a 2-percent increase of dividend income would offset the worst possible effect of the repeal of the dividend credit on an individual, and such cases are extremely rare.

Corporations at midyear 1963 are paying dividends to individuals at an annual rate of \$17.6 billion—dividends in personal income—national income definition. If corporations continue to pay the same proportion of their earnings after the corporate tax cut, then their dividend payments would increase by \$1.5 billion. Only a \$350 million increase in dividend payments to individuals would be required to assure that, even in the most extreme cases, after-tax income under the House bill could not be less than after-tax income under the present law.

Third. Retired persons with only dividend income would generally be nontaxable under the House bill, or, if taxable, would have to be very wealthy individuals (over \$100,000 of stock if single and about \$200,000 of stock if married).

It is occasionally pointed out that the repeal of the dividend credit would be a hardship on low-income aged persons with dividend income only. This is not true. Such persons would be typically nontaxable, even though they would have substantial dividend income and substantial stock holdings. For example, a retired couple with dividend income only and both entitled to the maximum retirement income credit would need to have almost \$200,000 of stock holdings before becoming subject to tax under the House bill. They would not be subject to tax liability until their dividend income exceeds \$6,253—\$6,253 minus \$200 of dividend exclusion minus \$2,400 of exemptions minus \$605 of deductions equals \$3,048 of taxable income, which would be tax free because of the retirement credit. Dividends of \$6,253 are earned on stock holdings of \$195,406 at the current rate of return of 3.2 percent—Standard and Poor's average yield from 500 stocks.

Similarly, an aged widow with dividend income only and entitled to the maximum retirement income credit would need to have over \$100,000 of stock before becoming subject to tax under the House bill. The widow would not be subject to tax liability until her dividend income exceeds \$3,224—\$3,224 minus

\$100 of dividend exclusion minus \$1,200 of exemptions minus \$400 of minimum standard deductions equals \$1,524 of taxable income, which would be tax free because of the retirement credit. Dividends of \$3,224 are earned on stock holdings of \$100,750 at the current rate of return of 3.2 percent.

B. DIVIDEND CREDIT IS NOT AN EFFECTIVE REMEDY FOR "DOUBLE TAXATION" OF DIVIDENDS

The present dividend credit is based, in large measure, on the concept that tax is paid twice on dividends; once when the corporation pays income tax on its earnings, and again when the stockholders pay individual income tax. This, of course, assumes that the shareholder bears the burden of the corporation income tax. Whether this assumption is actually warranted has been debated at great length. Some, for example, maintain that there is, in fact, no double taxation of dividends—that the shareholder cannot be regarded as paying the corporate income tax inasmuch as the corporation, with its special privileges and characteristics, is a separate legal entity having a taxpaying capacity quite apart from its stockholders. Others have questioned how much of the corporate income tax is actually borne by the corporation in the first instance and how much is shifted to consumers in higher prices, to employees in lower wages, and to former owners who sold their stock at lower prices to take the tax into account.

Whatever the merit of the double taxation argument, the dividend credit adopted in 1954 does not provide an effective solution.

The major part of the tax savings from the dividend credit accrues to upper-income taxpayers and the credit removes a very substantial part of the extra burden of alleged double taxation for high-income taxpayers, but only a small part of the burden for small and moderate income shareholders. Any such extra burden of the corporate tax is highest at the first taxable income bracket and is lowest at the highest taxable income bracket. As an individual's income increases and he is subject to higher marginal tax rates, he would be able to retain less of the funds that are taxed at the corporate level.

The tax reduction received by the shareholder on each \$1 of corporate earnings available for distribution after payment of corporate income tax

[P. 17155]

amounts to 1.9 cents—4 percent of the 48 cents remaining after paying the present 52 cents in corporate income tax. The credit is of no help at all to the non-

taxable individual with dividends, who bears a 52 percent tax on his dividends, assuming the validity of the double taxation argument. It removes less than 5 percent of the extra burden resulting from the corporate income tax at the \$4,000–\$8,000 taxable income level, over 9 percent at the \$88,000–\$100,000 income level, and more than 12 percent of the extra burden at the highest taxable income bracket of \$400,000 and over.

The 4-point corporate rate reduction in the House bill will not only make investment funds directly available to corporations but it will also provide relief from double taxation of 7.7 percent for all shareholders no matter what their incomes are. It is noteworthy that the dividend credit falls far short of providing the 7.7 percent relief except at the highest tax brackets.

C. DIVIDEND CREDIT HAS NOT BEEN EFFECTIVE IN
STIMULATING EQUITY INVESTMENT AND HAS
NOT BEEN RESPONSIBLE FOR INCREASE IN NUM-
BER OF STOCKHOLDERS

Historical evidence indicates overwhelmingly that the credit has not been effective in stimulating equity investment. There has been no upsurge in net purchases of stock by individuals since 1954 when the credit was adopted. In fact, in recent years net stock purchases by individuals have been outpaced by other forms of personal savings—such as time and savings deposits. See attached table 2.

Moreover, there has been little change in the ratio of equity financing to total corporate long-term financing in the period 1954–62. Also, there is factual evidence to indicate that in 1962 corporate funds secured from internal sources, including retained profits and cash flow attributable to depreciation and depletion, were more than 3¾ times as important as a source of corporate

funds than new stock and debt combined. On this latter point, the dividend credit obviously is much inferior to the tax credit for new investment in the “Revenue Act of 1962” or the 4-point corporate rate reduction in the House bill.

Mr. Chairman, this tax bill should be enacted, and enacted without the restrictive amendments which will be offered on the motion to recommit.

TABLE 2.—Net stock purchases by individuals
in relation to personal saving, 1951–62
[Dollar amounts in billions]

Year	Net stock purchases	Personal saving	Net stock purchases as a percent of personal savings
			Percent
1951	\$1.8	\$17.7	10.2
1952	1.7	18.9	9.0
1953	1.0	19.8	5.1
1954	0.8	18.9	4.2
1955	1.2	17.5	6.9
1956	1.6	23.0	7.0
1957	1.4	23.6	5.9
1958	1.3	24.7	5.3
1959	0.8	23.6	3.4
1960	−0.4	20.9	
1961	0.6	25.6	2.3
1962	−1.6	26.2	

Sources: Securities and Exchange Commission, Department of Commerce, and Council of Economic Advisers.

SHAREOWNERS IN PUBLIC CORPORATIONS

The number of individuals owning shares in publicly held corporations totaled an estimated \$17,010,000 in early 1962. This was an increase of approximately 4.5 million since 1959 and more than 10 million over the past decade.

These 17 million stockholders were part owners of nearly 6,300 publicly owned companies which had some 14.4 billion shares of stock outstanding with an estimated total market value of \$531 billion at the time of the study.

A comparison—for selected data—of the most recent findings with those from the three prior surveys is shown in the table below.

Highlights of 4 New York Stock Exchange shareowner census surveys

	Estimated			
	1952	1956	1959	1962
Number of individual shareowners	6,490,000	8,630,000	12,490,000	17,010,000
Number owning shares listed on New York Stock Exchange	(1)	6,880,000	8,510,000	11,015,000
Shareowner incidence to adult population	1 in 16	1 in 12	1 in 8	1 in 6
Median household income	\$7,100	\$6,200	\$7,000	\$8,600
Number of shareowners with household income—				
Under \$7,500 ²	(1)	5,438,000	6,720,000	6,666,000
Over \$7,500 ²	(1)	3,042,000	5,564,000	10,040,000
Number of adult female shareowners ³	3,140,000	4,260,000	6,347,000	8,291,000
Number of adult male shareowners ³	3,210,000	4,020,000	5,740,000	7,965,000
Median age	51	48	49	48
Number of issues owned by average shareowner	4.1	4.25	3.5	3.4

¹ Not available.

² 304,000 shareowners not classified by income in 1962; 206,000 in 1959; and 150,000 in 1956.

³ 304,000 shareowners not classified as to sex in 1962; 206,000 in 1959; 350,000 in 1956; and 140,000 in 1952.

Source: “New York Stock Exchange Fact Book, 1963,” p. 26.

Mr. BURKE. Mr. Chairman, the revenue bill of 1963 would, overall, reduce the total taxes of persons 65 and over by \$565 million a year.

Under the proposed tax changes: All of the 11 million older people who do not now have to file a tax return because their income is low would remain exempt from filing; nearly all the 3½ million who file returns, but pay no tax, would still pay no tax; the taxes of virtually all the 3.4 million older people now paying taxes would be reduced; social security and railroad retirement benefits and those other pensions which are now excluded from taxable income would continue to be exempt from tax; older people with incomes below \$10,000 a year would typically get proportionately greater reductions in their income taxes than would people with yearly incomes above \$10,000.

Specific proposals applying only to the aged: A minimum standard deduction of \$100 extra for a taxpayer 65 or over to accompany the additional personal exemption already provided; removal of the 1-percent floor on medicine and drug expenses for taxpayers 65 or over; gains from the sale of residence by a taxpayer 65 or over will be nontaxable subject to certain qualifications.

Examples of substantial benefits for elderly taxpayers: A single taxpayer over 65, \$2,000 income, standard deduction, now pays \$120 in taxes. Under the new program, he would pay only \$56, a reduction of \$64 or 53 percent; a single taxpayer over 65, \$4,000 income, standard deduction, now pays \$488 in taxes. Under the new program, he would pay only \$386, a reduction of \$102 or 21 percent; a married couple, both over 65, \$3,000 income, joint return, standard deduction, now pays \$60 in taxes. Under the new program, the couple would pay no tax; a married couple, both over 65, \$5,000 income, joint return, standard deduction, now pays \$420 in taxes. Under the new program, the couple would pay only \$290, a reduction of \$130 or 31 percent.

(See tables 1 through 3.)

MINIMUM STANDARD DEDUCTION

The new minimum standard deduction provided by the tax bill will help those millions of senior Americans who are not sharing fully in the Nation's prosperity. The minimum standard deduction means that an older person would be allowed to deduct at least this minimum amount—in addition to his personal exemptions—from his income before computing his taxes.

The minimum standard deduction in effect is \$300 for the first exemption and

\$100 for each additional exemption. The minimum would thus be \$400 for a single individual aged 65 or over. A married couple both 65 or over, would receive a minimum standard deduction of \$600—\$300 with respect to the first exemption and \$100 with respect to the three additional exemptions. This together with their four personal exemptions would mean that such a couple would pay no tax on the first \$3,000 of income. This would also be true of blind persons with double exemptions.

MEDICAL EXPENSE DEDUCTION

Medical and drug expenses are a huge burden for many elderly persons. Not only are the average expenses for persons over 65 much higher than for other people, but their retirement incomes are usually smaller in comparison to their earnings during their working years.

At present, all medicine and drug expenses of taxpayers over 65 are subject to a 1-percent floor. This means that payments for medicines and drugs are deductible only to the extent that they exceed 1 percent of adjusted gross income, which is total income for most wage and salary earners.

The tax bill would remove this 1-percent floor and make payments for medicines and drugs for persons 65 and over fully deductible from their income for tax purposes. Elimination of the 1-percent floor would apply to medicine and drug expenses of a taxpayer age 65 or over and those of his or her spouse, if also 65 or over. It would also apply to expenses paid on behalf of dependent parents aged 65 or over.

[P. 17156]

Under present law, the medical expenses of most taxpayers are subject to a floor of 3 percent of adjusted gross income. However, the 3 percent floor does not apply to medical expenses of taxpayers or dependent parents over age 65. The proposal would not change these rules.

Elimination of the 1-percent floor would help to further ease the burden of medicine and drug expenses for persons 65 and over. It is only a small step toward solving the problem of medical care for the elderly. But it would provide an annual tax saving of \$10 million for the 3.4 million elderly taxpayers.

SALE OF RESIDENCE

Under a third provision, when a taxpayer 65 years old or over sells his personal residence, he could exclude from his income any capital gain attributable to \$20,000 of the sales price. He would be allowed this exclusion only once in his lifetime. This would help those aged individuals whose family has grown and

who desire to purchase a less expensive home or move to an apartment or rented home. Under present law, the aged individual must tie up all of his investment from the old residence in his new residence, if he is to avoid taxation or any of the gain which may be involved.

DIVIDEND CREDIT AND EXCLUSION

Under present law, a taxpayer may exclude from his taxable income the first \$50 of dividends received from domestic corporations—\$100 for a husband and wife if each received dividend income. In addition, a taxpayer is allowed a credit against his tax equal to 4 percent of his dividend income in excess of the exclusion.

The tax bill would double the exclusion from \$50 to \$100—\$200 for married couples—and repeal the 4 percent dividend credit. The increase in the exclusion would take effect in 1964, while the credit would be reduced to 2 percent in 1964 and repealed in 1965.

The combined effect of these two changes alone would be to reduce taxes for 2 million of the 6.2 million taxpayers who received dividend income. Another 1.7 million taxpayers whose dividends are already excluded would, of course, be unaffected by the change. About 2.5 million taxpayers would find their taxes increased if this proposal were enacted alone.

However, aged shareholders, like other taxpayers, would benefit substantially from the overall program of tax reduction—including the reduction in individual tax rates, the reduction in corporate and capital gains tax rates, as well as the unlimited carryover to be allowed for capital losses.

In fact, it is noteworthy that many aged taxpayers with dividends would be better off with repeal of the dividend credit and the \$50 increase in dividend exclusion, irrespective of any lowering of corporate and individual rates or any other tax savings provisions of the House bill. These taxpayers could have substantial stockholdings. For example, if the credit were repealed and the exclusion were increased, a widow with only one exemption now receiving annually \$300 of dividends—on stocks valued at \$9,375, assuming 3.2 percent rate of return—would pay the same tax as she presently does—at the marginal tax rate of 20 percent—because the additional \$50 exclusion is equivalent to a 4-percent tax credit on \$250 of dividends. Therefore, any single aged person in the 20 percent tax bracket with dividends of up to \$300—\$250 plus the present \$50 exclusion—would actually be better off taking an additional \$50 exclusion in lieu of the dividend credit.

Similarly, an aged married couple filing jointly now receiving up to \$600 of dividends—on stocks valued up to \$18,750—and taxable at the marginal rate of 20 percent would be better off taking the additional \$100 exclusion in lieu of the dividend credit.

Table 4 provides similar examples of single and married taxpayers at different marginal rates.

Retired persons with only dividend income would generally be nontaxable under the House bill, or, if taxable, would have to be very wealthy individuals—over \$100,000 of stock if single and about \$200,000 of stock if married. It is occasionally pointed out that the repeal of the dividend credit would be a hardship on low-income aged persons with dividend income only. This is not true. Such persons would be typically nontaxable, even though they would have substantial dividend income and substantial stock holdings. For example, a retired couple with dividend income only and both entitled to the maximum retirement income credit would need to have almost \$200,000 of stock holdings before becoming subject to tax under the House bill. They would not be subject to tax liability until their dividend income exceeds \$6,253—\$6,253 minus \$200 of dividend exclusion minus \$2,400 of exemptions minus \$605 of deductions equals \$3,048 of taxable income, which would be tax free because of the retirement credit. Dividends of \$6,253 are earned on stock holdings of \$195,406 at the current rate of return of 3.2 percent—Standard and Poor's average yield from 500 stocks.

Similarly, an aged widow with dividend income only and entitled to the maximum retirement income credit would need to have over \$100,000 of stock before becoming subject to tax under the House bill. The widow would not be subject to tax liability until her dividend income exceeds \$3,224—\$3,224 minus \$100 of dividend exclusion minus \$1,200 of exemptions minus \$400 of minimum standard deductions equals \$1,524 of taxable income, which would be tax free because of the retirement credit. Dividends of \$3,224 are earned on stock holdings of \$100,750 at the current rate of return of 3.2 percent.

RETIREMENT INCOME CREDIT

Present law provides a tax credit on retirement for investment or pension income received by persons over age 65. However, the income taken into account for this credit must be reduced for tax-exempt social security or railroad retirement income and, for those under

age 72, for income derived from work above a specified income level. In computing the credit, present law provides that the income eligible for the credit is to be multiplied by the "rate provided in section 1 for the first \$2,000 of taxable income." Under present law, this rate is 20 percent.

The House bill, however, splits the present first bracket into four brackets and applied four rates ranging from 14 to 17 percent. To be consistent with the original enactment of the retirement income credit, that is, to keep the rate in computing the credit at the rate applicable to the first bracket, the House bill provides that rate in computing the credit is to be 15 percent. This is as near the middle of the four rates applicable to the first \$2,000 of income as is possible without the use of fractional rates.

To keep the credit rate at 20 percent while reducing first bracket tax rates would give a tax advantage to those retirees who use the credit and favor them over millions of social security pensioners. Since the credit would exceed the "first bracket" tax on their eligible retirement income, it would offset some of the tax resulting from rates above the first bracket—contrary to the whole purpose of this credit. Hence a 15-percent rate for the credit is in keeping with the original credit.

TABLE 1.—Single taxpayer over 65, with standard deduction

Income (wages and salaries)	Present tax	New tax	Tax cut	Percent tax cut
\$1,000-----	0	0	-----	-----
\$1,500-----	\$30	0	\$30	100
\$2,000-----	120	\$56	64	53
\$3,000-----	300	209	91	30
\$4,000-----	488	386	102	21
\$5,000-----	686	557	129	19
\$6,000-----	892	734	158	18
\$7,500-----	1,243	1,031	212	17
\$10,000-----	1,900	1,580	320	17

Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 2.—Married couple, both over 65, with standard deduction

Income (wages and salaries)	Present tax	New tax	Tax cut	Percent tax cut
\$1,000-----	0	0	-----	-----
\$1,500-----	0	0	-----	-----
\$2,000-----	0	0	-----	-----
\$3,000-----	\$60	0	\$60	100
\$4,000-----	240	\$140	100	42
\$5,000-----	420	290	130	31
\$6,000-----	600	450	150	25
\$7,500-----	877	686	191	22
\$10,000-----	1,372	1,114	258	19

Office of the Secretary of the Treasury, Office of Tax Analysis.

[P. 17157]

TABLE 3.—Married couple, both over 65, with typical average itemized deductions

Income (wages and salaries)	Present tax	New tax	Tax cut	Percent tax cut
\$1,000-----	0	0	-----	-----
\$1,500-----	0	0	-----	-----
\$2,000-----	0	0	-----	-----
\$3,000-----	0	0	-----	-----
\$4,000-----	\$144	\$108	\$36	25
\$5,000-----	300	223	77	26
\$6,000-----	456	343	113	25
\$7,500-----	720	576	144	20
\$10,000-----	1,196	990	206	17

Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 4.—Taxpayers benefiting from an additional dividend exclusion and repeal of the dividend credit

SINGLE TAXPAYER (\$50 ADDITIONAL EXCLUSION)			
Taxpayers receiving total dividends of this amount or less	On stocks valued at (3.2 percent rate) ¹	And subject to marginal tax rate of—	Will pay the same or less tax because the additional exclusion is equal to the 4-percent dividend credit on dividends of—
		Percent	
237.50-----	\$7,422	15	\$187.50
250.00-----	7,812	16	200.00
262.50-----	8,203	17	212.50
275.00-----	8,594	18	225.00
287.50-----	8,984	19	237.50
300.00-----	9,375	20	250.00
312.50-----	9,766	21	262.50
325.00-----	10,156	22	275.00
337.50-----	10,547	23	287.50
350.00-----	10,937	24	300.00

MARRIED TAXPAYERS (\$100 ADDITIONAL EXCLUSION)			
Taxpayers receiving total dividends of this amount or less	On stocks valued at (3.2 percent rate) ¹	And subject to marginal tax rate of—	Will pay the same or less tax because the additional exclusion is equal to the 4-percent dividend credit on dividends of—
		Percent	
475.00-----	\$14,844	15	\$375.00
500.00-----	15,624	16	400.00
525.00-----	16,406	17	425.00
550.00-----	17,188	18	450.00
575.00-----	17,968	19	475.00
600.00-----	18,750	20	500.00
625.00-----	19,532	21	525.00
650.00-----	20,312	22	550.00
675.00-----	21,094	23	575.00
700.00-----	21,874	24	600.00

¹ June-July 1963 weekly average, Standard & Poor's Corp. (500 stocks).

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Sept. 6, 1963.

TABLE 5.—Revenue bill of 1963 effect on taxpayers age 65 and over ¹

[In millions of dollars]

TOTAL

Adjusted gross income class	Tax liability under present law ²	Rate change	Structural changes								Total effect of bill	
			Sick pay exclusion	Limitation of deductions	Casualty loss deduction	Personal holding companies	Dividend credit and exclusion	Medical care deduction	Minimum standard deduction	All other changes ³		Total structural changes
0 to \$3,000.....	40	-15	(4)	(4)	(4)	(4)	(4)	(4)	-5	(4)	-5	-20
\$3,000 to \$5,000.....	200	-60	(4)	5	(4)	(4)	5	(4)	-5	(4)	5	-55
\$5,000 to \$10,000.....	730	-165	(4)	10	(4)	(4)	15	(4)	(4)	(4)	35	-130
\$10,000 to \$20,000.....	830	-145	(4)	10	(4)	(4)	20	(4)	(4)	(4)	30	-115
\$20,000 to \$50,000.....	990	-165	(4)	10	(4)	(4)	35	-5	(4)	(4)	40	-125
\$50,000 and over.....	1,240	-190	(4)	15	(4)	(4)	55	-5	(4)	(4)	70	-120
Total.....	4,030	-740	5	50	5	5	130	-10	-10	(4)	175	-565

WITH EARNED INCOME

0 to \$1,000-----	25	-10	(4)	(4)	(4)	(4)	(4)	(4)	-5	(4)	-5	-15
\$3,000 to \$5,000-----	150	-45	(4)	5	(4)	(4)	5	(4)	(4)	(4)	10	-35
\$5,000 to \$10,000-----	580	-130	(4)	10	(4)	(4)	5	(4)	(4)	(4)	25	-105
\$10,000 to \$20,000-----	585	-105	(4)	5	(4)	(4)	10	(4)	(4)	(4)	15	-90
\$20,000 to \$50,000-----	700	-115	(4)	5	(4)	(4)	20	-5	(4)	(4)	20	-95
\$50,000 and over-----	905	-140	(4)	10	(4)	(4)	25	-5	(4)	(4)	30	-110
Total-----	2,945	-545	5	35	5	(4)	65	-10	-5	(4)	95	-450

WITH NO EARNED INCOME

0 to \$3,000-----	15	-5	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	-5
\$3,000 to \$5,000-----	50	-15	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	-5	-20
\$5,000 to \$10,000-----	150	-35	(4)	(4)	(4)	(4)	10	(4)	(4)	(4)	10	-25
\$10,000 to \$20,000-----	245	-40	(4)	(4)	(4)	(4)	10	(4)	(4)	(4)	15	-25
\$20,000 to \$50,000-----	290	-50	(4)	5	(4)	(4)	15	(4)	(4)	(4)	20	-30
\$50,000 and over-----	335	-50	(4)	5	(4)	(4)	30	(4)	(4)	(4)	40	-10
Total-----	1,085	-195	(4)	15	(4)	5	65	(4)	-5	(4)	90	-115

¹ Excludes capital gains provisions.

² Excludes tax at 25 percent alternative rate.

³ All other changes include group term insurance, child care allowance, moving expenses, income averaging, charitable contributions.

⁴ Less than \$2,500,000.

Mr. GOODELL. Mr. Chairman, this country needs a tax cut. Our private economy has long been stifled and burdened by an excessively heavy tax load. Our people back home have watched their local, their school taxes, their State, and their Federal taxes spiral upward. That spiral has resulted from the unrelenting pressure of spending by Government.

I intend to vote for the Byrnes recommitment motion that would tie Federal tax reduction to cuts in the budget. I have voted against every appropriation bill this year, except military defense. I have done so, because, in my study of those bills I have felt that every one of them was too high. I intend to continue judging appropriation measures by a Puritan standard.

If the Byrnes amendment fails, however, I intend to vote for this tax reduction bill. I do so with mixed feelings. There are many bad features in this bill. The repeal of a portion of the dividend credit is wrong. Tax loopholes have been left unfilled. Basic reforms in our tax structure remain neglected. Yet, no tax bill is perfect. The bill itself is 310 pages long and the report explaining it is longer yet. The bill does, however, meet one paramount requirement: it reduces the weight of taxes upon the backs of our people and our businesses. I believe most of the domestic problems faced by our country today would be solved by an expanded prosperity. I strongly prefer that answer instead of the depressing, pessimistic, oppressive expedient of increased Federal intervention into the lives of our citizenry. If we reject the opportunity for a tax cut now, we will continue to hobble our private economy in the face of rising demands from liberal economists that Government must replace most private phases of our economy. The one argument repeated by these liberal planners, in fact din-

[P. 17158]

in our ears unceasingly, is: "You can't solve domestic problems through the private economy. The only one who can really help the average citizen to a better life is Mr. Federal Government."

Mr. Chairman, there are danger signals on the horizon for our Government. There may well be a recession coming—perhaps between next December and March. I do not, by any means, believe that this tax cut would prevent such a recession. It is too late and it is offered as a part of a crazy conger of conflicting economic panaceas proposed by Mr. Kennedy. We are committed irrevocably today to a course which will probably produce recession tomorrow. Unfortunately, the few people in the adminis-

tration who seem to understand the dynamics of our free economy are today only weak and timid voices in the wilderness. Nonetheless, an immediate reduction of the tax burden is important to the preservation of our economic system as we know it today.

I am not impressed by the President's recent words committing himself to economy. Words have been too numerous and actions too sparse on the Washington frontier for the past 3 years. We know the record of regular, insistent demands upon Congress to increase spending. The President has not withdrawn a single one of those demands. As a matter of fact, he mentioned them briefly in his address to the Nation when he referred to the importance of "all the rest" of his spending proposals now bogged down in Congress. The President says he is going to cut expenditures, but at the same time he goes on demanding that Congress loosen up on the Treasury pursestrings.

Mr. Chairman, I am especially encouraged by one development which deserves mention here. A year and a half ago the President was talking about the myth of the balanced budget and fiscal responsibility. He seemed ready to try to sell the American people on the value of persistent and continued deficit spending. Today he has, for the moment at least, abandoned this approach. This represents a monumental victory for Congress over the executive planners who care not about balanced budgets. It may turn out to be a Pyrrhic victory, but determination and insistence by Congress in future appropriations may yet make it meaningful.

I want for the record to include here the comments, by the gentleman from Arkansas, Chairman WILBUR MILLS, on September 16, with reference to this legislation and President Kennedy's letter of the following day in which he subscribed to the gentleman from Arkansas [Mr. MILLS] very sensible views. Needless to say, the President has often held precisely to the opposite views, but it is nice to have him occasionally on our side. It is my hope that the action of the House today in passing this tax reduction will force the President to adhere to the economic policy stated by the gentleman from Arkansas [Mr. MILLS]. We cannot go both ways—the way of tax reduction and the way of increased expenditure to stimulate our economy—without great peril under present circumstances. As President Kennedy so eloquently put it in his Yale commencement address:

For the great enemy of the truth is very often not the lie—deliberate, contrived, and

dishonest—but the myth—persistent, persuasive, and unrealistic.

We pray that the President's seeming commitment to expenditure reduction and fiscal responsibility will not tomorrow be classed among the "myths" of a bygone era.

CHAIRMAN WILBUR D. MILLS, COMMITTEE ON WAYS AND MEANS, EXPLAINS INTENT AND PURPOSE OF SECTION I OF H.R. 8363, THE REVENUE ACT OF 1962

The purpose of this tax reduction and revision bill is to loosen the constraints which present Federal taxation imposes on the American economy. The results of these tax reductions and revisions will be a higher level of economic activity, fuller use of our manpower, more intensive and profitable use of our plant and equipment; and with the increases in wages, salaries, profits, consumption, and investment, there will be increases in Federal tax revenues. Increases in economic activity, in the use of our resources, in personal and business incomes, and in Federal revenues might be also realized if, instead of reducing taxes, the Congress and the administration increased expenditures of Government. In other words, there are two roads the Government could follow toward a larger, more prosperous economy—the tax reduction road or the Government expenditure increase road. There is a difference—a vitally important difference—between them. The increase in Government expenditure road gets us to a higher level of economic activity with larger and larger shares of that activity initiating in Government—with more labor and capital being used directly by the Government in its activities and with more labor and capital in the private sector of the economy being used to produce goods and services on Government orders. The tax reduction road, on the other hand, gets us to a higher level of economic activity—to a bigger, more prosperous, more efficient economy—with a larger and larger share of that enlarged activity initiating in the private sector of the economy—in the decision of individuals to increase and diversify their private consumption and in the decisions of business concerns to increase their productive capacity—to acquire more plant and machines, to hire more labor, to expand their inventories—and to diversify and increase the efficiency of their production.

Section I of the bill is a firm, positive assertion of the preference of the United States for the tax reduction road to a bigger, more progressive economy. When we, as a Nation, choose this road we are at the same time rejecting the other road, and we want it understood that we do not intend to try to go along both roads at the same time.

The further meaning of section I of the bill is that no Government activity is to depend for its justification on the amount it contributes to the total spending of the economy, because we prefer to reduce taxes and allow individuals and business concerns in their own right to make that contribution. On the contrary, any and all activities of the Government have to be justified on their importance in serving other essential goals

of the Nation. There is no further justification for an indifferent attitude toward wasteful, inefficient Government activities, merely because they incidentally give employment—tax reduction will also create job opportunities and in lines of activity which better satisfy the character and demands of the people for an enriched life. There is no more justification for half-hearted efforts or outright failure to eliminate Government programs that have outlived their usefulness just because they also contribute to the total spending stream of the economy—that contribution will be better realized by increasing the purchasing power of consumers and investors through tax reduction. Finally, there is no further occasion for using the additional revenues which will be generated by the expansion of the economy as a result of tax reduction and revision to finance additional investment expenditures, solely because those additional expenditures might add further to expansion of economic activity. If such additional expansion is desired or needed, tax reduction will achieve it just as surely and through vigorous and progressive forces of the private sectors of the economy.

Let me emphasize the last point. Section I of the bill announces very clearly that we are not rejecting a balance in the budget as the guiding criterion for management of the finances of the Federal Government. We are, indeed, emphatically reaffirming that criterion. We are confident that within a relatively short period of time, tax reduction and revision will result in larger Federal revenues than those we could expect without these tax changes. Section I of the bill calls upon both the Executive and Congress to restrain Government expenditures so that this increase in revenues can reduce deficits and bring us sooner to realization of the goal of a balanced budget in a prosperous economy.

I have stressed the contribution this bill will make in achieving a balanced budget and an enlarged economy. These are the principal economic objectives of the bill. If I were called upon to give a definition of the phrase "fiscal responsibility," this is just how I would define it. It means conducting the finances of the Federal Government in such a way that a balanced budget can be and is achieved in an economy which is growing rapidly, providing adequate employment and investment opportunities, making full use of its capital and human resources, and giving the fullest possible play to the initiative and venturesomeness of the private sector. Tax reduction and revision will make it possible for us to achieve these objectives—to be fiscally responsible—with minimum direct intervention by the Government in the decisions of individuals and business concerns.

It has been argued by some that this bill represents an effort by the Federal Government to manage the economy and ignores the precept that taxation should be for revenue purposes only. The argument is completely wrong. This bill reflects an effort by the Federal Government to reduce and remove—not to impose—tax constraints on the economy, to give the private sector of the economy greater wherewithal to do what

comes naturally to it and which increases the well being of all of us. Moreover, it affords us the greatest possible assurance that we will before long secure revenues equal to—or even greater than—Government expenditures. Indeed, failure to provide tax reduction and revision at this time would be fiscally irresponsible. It would represent the Federal Government's ignoring the adverse impact of its excessive tax burdens on the economy and on the budget. We must remember that tax policy cannot be made in a vacuum. If we are to be responsible, we must give the closest possible attention to the effects on the economy of what we do—or fail to do—in tax policy.

This bill, therefore, represents a respon-

sible discharge of our duties to sound fiscal management.

Mr. LINDSAY. Mr. Chairman, I am for this tax bill. Although I have differences with some aspects of it, these differences are minor compared to my over-

[P. 17159]

all conviction that the American economy is in need of the stimulus that will come from a cut in income tax rates.

I think it is useful to restate for the RECORD at this point the schedule of changes for individuals:

Taxable income brackets

Single person	Married (joint)	Present rates	1964 rates	1965 rates
0 to \$500	0 to \$1,000	20	16.0	14
\$500 to \$1,000	\$1,000 to \$2,000	20	16.5	15
\$1,000 to \$1,500	\$2,000 to \$3,000	20	17.5	16
\$1,500 to \$2,000	\$3,000 to \$4,000	20	18.0	17
\$2,000 to \$4,000	\$4,000 to \$8,000	22	20.0	19
\$4,000 to \$6,000	\$8,000 to \$12,000	26	23.5	22
\$6,000 to \$8,000	\$12,000 to \$16,000	30	27.0	25
\$8,000 to \$10,000	\$16,000 to \$20,000	34	30.5	28
\$10,000 to \$12,000	\$20,000 to \$24,000	38	34.0	32
\$12,000 to \$14,000	\$24,000 to \$28,000	43	37.5	36
\$14,000 to \$16,000	\$28,000 to \$32,000	47	41.0	39
\$16,000 to \$18,000	\$32,000 to \$36,000	50	44.5	42
\$18,000 to \$20,000	\$36,000 to \$40,000	53	47.5	45
\$20,000 to \$22,000	\$40,000 to \$44,000	56	50.5	48
\$22,000 to \$26,000	\$44,000 to \$52,000	59	53.5	50
\$26,000 to \$32,000	\$52,000 to \$64,000	62	56.0	53
\$32,000 to \$38,000	\$63,000 to \$76,000	65	58.5	55
\$38,000 to \$44,000	\$76,000 to \$88,000	69	61.0	58
\$44,000 to \$50,000	\$88,000 to \$100,000	72	63.5	60
\$50,000 to \$60,000	\$100,000 to \$120,000	75	66.0	62
\$60,000 to \$70,000	\$120,000 to \$140,000	78	68.5	64
\$70,000 to \$80,000	\$140,000 to \$160,000	81	71.0	66
\$80,000 to \$90,000	\$160,000 to \$180,000	84	73.5	68
\$90,000 to \$100,000	\$180,000 to \$200,000	87	75.0	69
\$100,000 to \$150,000	\$200,000 to \$300,000	89	76.5	70
\$150,000 to \$200,000	\$300,000 to \$400,000	90	76.5	70
\$200,000 and over	\$400,000 and over	91	77.0	70

The present opening bracket of \$0 to \$2,000 for single persons would be split into four segments of \$500 each. The beginning rate of 14 percent—1965—is approximately 30 percent below the present 20 percent rate. It would apply to only \$500—\$1,000 for married couples. However, the reduction in the top \$500 of the present first bracket is from 20 to 17 percent, a cut of about 15 percent. For higher brackets, the average reduction in rates remains at about 15 percent. Thus, the reduction from 38 to 32 percent in the \$10,000 to \$12,000 bracket is about 15 percent, and the reduction from 59 to 50 percent in the \$22,000 to \$26,000 bracket is also about 15 percent. At still higher levels, the percentage reductions are greater. Thus, for single individuals with incomes between \$50,000 and \$60,000, the reduction from 75 to 62 percent in this bracket, is roughly 17 percent; on income between \$100,000 and \$150,000 the reduction would be about 24 percent.

This bill by 1965 will cut total Federal revenues by \$11 billion. This is a very large cut in Federal revenue indeed. But if the experience of the Eisenhower administration 1954 tax cut holds true, there will be a substantial increase in Federal revenues in the years thereafter. The Eisenhower administration tax reduction in 1954 amounted to \$7.4 billion. This, it should be said, included allowing the excess profits tax to expire. Two years later, in 1956, receipts were \$3.2 billion above the level existing before the reductions were made.

Currently the unemployment rate in the United States is 5.5 percent. In New York City it is a good deal higher. I believe that an immediate cut in rates for both individuals and corporations will have a beneficial impact on the unemployment rate.

I believe also that the extremely high rates that now exist for individuals—from 20 to 91 percent—have depressed incentive and impeded consumer buying.

I am not impressed with the arguments that I have heard about the immediate danger of setting off an inflationary spiral. That is a danger in any relatively stable economy but it is not our problem now. Most economists whose works I have read or with whom I have discussed this subject in person have long supported the view that rate reductions will be beneficial.

I am pleased that this bill does not include the proposed taxation at capital gains rates of the appreciated value of assets held at death. It is sound also that ordinary capital gains rates are reduced to a maximum of 21 percent for assets held 2 years or longer.

I think it was an error to remove the dividend credit in two steps—from 4 to 2 percent in 1964 and repealed for subsequent years—but under the rule no amendments are permitted in order to rectify this error. In view of the allowances of the dividend exclusion, I think it was proper to double the dividend exclusion from \$50 to \$100.

I am pleased also that a provision has been inserted in the bill for the averaging of income for those persons, usually authors or composers, who may receive a very high income in one year and a very low income in other years for a single work product. The bill in effect provides for the averaging of income over a 5-year period where the income in the current year exceeds the average of the 4 prior years by more than one-third and this excess equals at least \$3,000.

It is sensible that the bill eliminates the 2 percent penalty tax which must presently be paid by corporations for the privilege of filing consolidated returns.

Mr. Chairman, while I intend to vote for the tax bill, I shall also vote for the Byrnes amendment, which will require the President to submit a budgetary request of no more than \$97 billion for fiscal 1964 (which is in fact higher than the current level) and \$98 billion for fiscal 1965. None of the Members who argue against this amendment argue against its purpose. All Members on the majority side of the aisle that I have heard in debate have stated that expenditures should be held at these levels, and the President has indicated that he expects to. The administration must establish priorities of importance. This they refuse to do. The other day they pressed on us a \$175 million bomb shelter bill. Before that it was a one-half billion dollar pork barrel misnomered "area redevelopment." Before that it was a \$5½ billion moon-shot bill which we tried to cut down to reasonable proportions, and they fought us. Meanwhile basic things like education die aborning.

Normally I do not like to attach strings to the Executive in the enactment of congressional programs. I have voted against such proposals several times in areas involving foreign policy for that very reason.

But I shall vote for this amendment as a declaration of general policy to the effect that the Federal budget should be kept in balance except in emergencies such as a depression or a severe recession, which no one now argues we are about to have. In the absence of emergencies, I do not agree with planned deficits for indefinite periods. Strangely enough, I can find no disagreement with this in the report of the Democratic majority. In fact, the report says in plain language that "if Congress is to provide the tax reduction intended in this bill a tighter rein than previously must be kept on expenditures."

In the debate the last 2 days, in fact, has disclosed that the Members on the majority side of the aisle have been competing with each other to see who can make the strongest statement in favor of achieving a balanced budget in the earliest possible year.

If the Byrnes amendment does not pass we shall expect the Democratic majority and the President who has endorsed this statement stated in the report, to live up to the promise made.

Mr. DONOHUE. Mr. Chairman, this bill, H.R. 8363, we are now debating, and which I earnestly hope we will forthwith approve, is unquestionably the most important measure that has yet come before this 88th Congress; it could well prove to be the most significant legislative tax act of modern history.

The anticipated impact of this bill practically constitutes the core upon which further major Government purposes are founded; it represents a vital segment in this Nation's future economic expansion plans; it provides a keystone in the overall architectural design to keep this country moving ahead in the basic areas of economic development, domestic progress and world leadership.

Briefly, the objectives of this tax reduction proposal, accompanied with pledged economies in and prudent control of future Federal expenditures, are to encourage the long-term economic growth of the Nation, restrain the tendencies of increasing unemployment, restrict the historically recurrent forces of recession, contribute to the balancing of our international payments, and eventually eliminate the distressing pattern of chronic budgetary deficits.

To determine our action on this vitally important legislation it seems to me we must each ask of, and answer for, our-

selves this simple question—do the provisions of this bill hold forth a reasonable prospect of fulfilling its objectives, which are admittedly in the best national interest?

To get the right answer to this question, I think it wise to use our time-tested first principles of decision, which are the lessons of past experience, attention to the voice of authority, acceptance of the weight of the evidence, and the exercise of conscientious judgment.

A summary application of these principles reveals that, in the economic history of our own and other countries, most recently in England, tax reduction does undoubtedly tend to stimulate the economy, encourage capital investment, and relieve unemployment.

With regard to the voice of authority, I think all Members here would agree there is none in this country higher or more respected than the distinguished chairman of the House Ways and Means Committee. He, with his dedicated associates on this great committee, have spent some eight long and arduous months listening to witnesses, evaluating testimony and formulating the bill they have now presented to us with recommendation for passage.

The President of the United States, in conformity with his sworn and solemn duty, to make recommendations to improve the state of the Nation, has testified before the country in explanation and favor of this legislation. Beyond these expert sources a majority of our leading economists; the Business Committee for Tax Reduction in 1963, composed of some 2,400 of our most respected industrial leaders; the officials of our great labor organizations; major insurance groups; the U.S. Chamber of Commerce, and the Republican Governors' Association have also recorded their voices and sentiments in support of this bill's objectives.

It would appear then that the lessons of history and multitudinous voices of authority provide us, in this instance, with an overwhelming weight of evidence for approval of this bill. There remains then only the exercise of our own individual conscientious judgment.

Certainly there are some items and provisions within this bill with which each of us could find disagreement but, for what we cannot change or eliminate, is it right to imperil the overall benefits this bill holds out to the Nation, more especially when we have in the language of the bill itself and the statement of the President a pledge to determinedly pursue substantial reductions in future governmental expenditures.

As you are aware, the first section of this bill contains a declaration, in summary, that the "Congress by this action recognizes the importance of taking all reasonable measures to restrain Government spending and urges the President to declare his accord with this objective."

As you are further aware, the President wrote to the distinguished chairman of the Ways and Means Committee repeating his previous pledge to achieve a balanced Federal budget and exercise a tighter rein on Federal expenditures by limiting outlays to things that meet strict criteria of national need.

In the light, then, of this bill's language and the President's pledge, I would suggest that the conditioned and restrictive proposals being so earnestly and sincerely made here might well be later brought before us separately and on their own merits. It would seem almost certain that any restrictive amendments appended to this measure now would generate only confusion and doubt throughout our whole economic development system and negate the meritorious objectives of this measure. We must remain mindful that the executive department, after all, cannot expend more than the Congress appropriates.

Let us then, today, demonstrate our faith in the authority and dedication of a distinguished chairman and members of a great committee of this Congress. Let us avoid furnishing any further inspiration and material to Communist propaganda by showing proper confidence in the pledge of a President of the United States. Let us recall that our American citizens, through the Congress, have been exceedingly generous over a great period of time toward the people and welfare of other nations in the world. This is our opportunity to prove our concern for our own too long and too greatly burdened taxpayers and businesses. For the future progress of our country let us give the American taxpayer and businesses the tax relief they so urgently need and let us to it right now.

Mr. ANDERSON. Mr. Chairman, when I canvassed my congressional district in a congressional poll earlier this year, I received overwhelming evidence that my constituents felt that any tax reduction ought to be coupled with a reduction in Federal spending. In fact, our tabulation showed that 86.6 percent favored this approach. Consequently, when the matter comes to a vote, I will be obliged to support the heavy consensus in my district.

I am also concerned over features in this bill which, instead of constituting tax reform, would really continue a re-

gressive form of double taxation. The repeal of the 4-percent credit will have a harsh impact on those individuals who have set aside earnings and are living on a fixed income. It will also wipe out one of the incentives for investment on which the economic community of our Nation must depend for it to grow and to create additional jobs to eliminate unemployment. The confidence of some 17 million American investors, beyond any shadow of a doubt, will be shaken by this repeal provision in the tax bill.

Further, the reduction in tax rates for the vast majority of Americans who fall into the great middle class will only be 15 percent and this is the group from which flow savings and investment capital. They have not been treated fairly by this bill in the proposed revisions in our rate structure.

Mr. Chairman, if the tax bill does not pass, it will only be because the administration is more interested in its spending program than it is in providing the American taxpayer with the type of tax relief that is long overdue. Word has gone out from the White House to defeat the Byrnes' motion at all costs. However, any vote for the bill under the so-called gag rule and without restricting Federal expenditures must inevitably be a vote for fiscal irresponsibility.

We have heard many of the proponents of the bill from the other side of the aisle and the administration generally, who refer to the tax reductions voted in the 80th and 83d Congresses as stimulators of the American economy. As a Republican, I am proud of those Republican accomplishments which were voted despite strong opposition from prominent Members in the Democratic Party including the present occupant of the White House. They now freely admit to the wisdom of this pioneering effort by the 80th and 83d Republican Congresses who, after so many years of heavy, burdensome and oppressive taxation reversed the false economic notion that the Government could keep the economic wheels moving most efficiently by taxing and spending. However, let us be mindful of the rest of that successful formula which stood the test in the ensuing years. Our friends on the Democratic side of the aisle would have us forget that those tax reductions were coupled with reductions in Federal spending. However, the two sensibly go hand in hand. Otherwise, we can only assume that the administration has no other concern than advancing the fallacious economic theory that it can spend its way into prosperity and tax our children into poverty. In this connection, one of my constituents suggested that if a \$11 billion deficit can do so much

for the economy, just imagine what a \$22 billion deficit will do.

I would remind our colleagues that the 1948 Tax Reduction Act provided a \$7.1 billion a year saving to our taxpayers together with a reduction in Federal expenditures amounting to some \$7 billion. The 1954 act provided an additional \$7 billion tax reduction, and this was coupled with a \$9.7 billion reduction in Federal spending.

If we forgo the opportunity to restrict Federal expenditures in this tax bill, the additional deficit spending of the Kennedy administration will increase the fixed carrying charges on the public debt. What temporary benefits may accrue will be dissipated by the harsh impact of inflation. The purchasing power of the dollar will decline further. Persons living on fixed retirement incomes will find it harder to make ends meet.

Mr. Chairman, I believe completely in the necessity of tax reduction. I also believe that the people of America expect those of us in the Congress to act responsibly and to vote against tax cuts that are not firmly tied to reductions in expenditures.

Mr. FINDLEY. Mr. Chairman, on September 19, I reported to President Kennedy that my constituents are 4 to 1 against a tax cut if spending is not cut.

Here is text of my telegram:

On TV and radio last night you asked the public to contact their Congressmen

[P. 17161]

about the proposed tax cut. I have the answer from my constituents, and I'm ready to report. They are 4 to 1 against a tax cut if spending is not cut. To the question, "Should income taxes be cut if Federal spending is not cut?" 3,253 answered yes; 13,134 answered no. This was a question on my recently completed annual home-district survey. Questionnaires went to names selected at random from telephone directories.

PAUL FINDLEY,
Member of Congress.

Following is an acknowledgement I received from the White House, together with my final report to the President:

THE WHITE HOUSE,
Washington, September 20, 1963.

HON. PAUL FINDLEY,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: Thank you for your telegram of September 19 informing the President of the results of the recent poll you made in your district regarding the proposed tax cut.

I note that your poll was made before the President's nationwide address in which he explained the compelling reasons for a tax cut, and I hope that the climate of opinion in your district has changed somewhat now.

In any event, we appreciate your interest in informing us of the thinking of your constituents.

Sincerely yours,

LAWRENCE F. O'BRIEN,
Special Assistant to the President.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., September 25, 1963.
The Honorable JOHN F. KENNEDY,
President of the United States,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Replying to my telegram of September 19, your special assistant expressed the hope that the climate of opinion in the 20th Congressional District of Illinois has changed since your nationwide address urging the tax cut.

It is true my survey on the tax cut question was made prior to your plea.

Since you spoke, I have had this response:

For a tax cut.....	9
Against a tax cut.....	39

We have done some spot checking and it's quite clear that those who have answered since your message had not previously expressed an opinion. Therefore, I cannot report any shift in attitude.

As you note, the ratio continues to be about 4 to 1 against a tax cut if spending is not cut.

Sincerely yours,

PAUL FINDLEY,
Representative in Congress.

Mr. COHELAN. Mr. Chairman, the tax cut contained in this bill before us today offers us a great opportunity to strengthen our economy—to encourage and support vitally needed long-term economic growth—and I rise in its support.

There can be no question that we as a Nation today are confronted with a tragic waste of both our human and material resources—a waste which we cannot afford and must not allow to continue, both for our own national security and welfare, and for our continued efforts in behalf of freedom throughout the world.

In brief, we face a situation where unemployment is too high and national output is too low. Unemployment, currently at a rate of 5.5 percent, has exceeded 5 percent for each of the past 5 years. Unused plant and equipment, attributable largely to inadequate profit margins and insufficient demand for goods and services, has caused our national output to run from \$30 to \$40 billion below its potential.

Experience over the years indicate that the largest single barrier to the full employment of our manpower, to the maximum utilization of our material resources, and to a higher rate of economic growth is the unrealistically heavy drag of Federal income taxes on private

purchasing power. Originally designed to hold back wartime inflation, our present tax structure, by siphoning out of the private economy too large a share of personal and business purchasing power, now holds back consumer demand, initiative, and investment.

This bill—and this tax cut—will enable our free enterprise system to generate the higher rate of growth which our economy requires. To do this we can count not only on the short-run benefits of the \$10 billion net cut in taxes but based upon normal consumer spending habits, 92 to 94 percent of this additional income left in the hands of consumers will be spent on consumer goods and services. This will result in further income which in turn will be spent on additional goods and services, and the cycle can continue.

The increased demand brought about by a tax cut will mean more jobs for American workers, and as the President stated so succinctly last week:

We cannot effectively attack the problem of teenage crime and delinquency as long as so many of our young people are out of work. We cannot effectively solve the problem of racial injustice as long as unemployment is high. We cannot tackle the problem of automation when we are losing 1 million jobs every year to machines.

But the tax cut can do more than create jobs and reduce unemployment. A tax cut, with its resulting increased consumer demand, means new protection against further tragic recessions. It means new markets for American business. It means new strength abroad for the American dollar and a reduction in our troublesome balance-of-payments deficit. Finally it means that by lowering tax rates, by increasing jobs and income, we can expand tax revenues. This, coupled with the tight rein on Federal expenditures, which both the President and this bill pledge, will enable us to bring our budget into balance.

At the same time that the tax cut would stimulate demand, it would not lead us into an inflationary price spiral. The overabundance of unused capacity which confronts us today is assurance against this alternative.

Mr. Chairman, this tax bill has been criticized by some who believe it is fiscally irresponsible to add a tax cut, and a resulting temporary deficit, to our existing budget deficits. This, it is true, is a new venture for our country, but it is not new for many of our Western Allies. As a matter of fact, this is accepted fiscal practice in Western Europe and there the rate of economic growth today is substantially in excess of ours.

As the distinguished analyst Walter Lippmann has declared:

There is only one way to balance the budget and that is first to balance the economy.

Mr. Chairman, I do not agree with every aspect of this bill. There are inequities and inequalities in the structural reforms and in portions of the law which have not been changed, or changed sufficiently.

But on balance this is a good bill, it is an important bill, and it is a necessary bill. It offers strong encouragement to both consumption and investment. It offers our private economy the freedom it needs to draw upon its own inherent resources for growth. It offers a program to meet our needs today while laying the foundation for a better tomorrow. It meets the tests of timeliness, of appropriateness, and of responsibility, and I urge that we approve it as an urgently needed boost to our economy.

Mr. GLENN. Mr. Chairman, this Congress is presently engaged in action upon legislation which directly affects every citizen of this Nation—legislation which could, through its impact upon our economy, extend its influence across the years to touch the lives, the pocketbooks and the very freedoms of still unborn generations of Americans.

I am, of course, referring to the tax cut bill—the bill whose passage the President has demanded in a message to the people of the United States.

Most certainly, I am in favor of a tax deduction. I am sure it is apparent to most citizens—and has been for a long, long time—that our taxes are too high; that our tax burden both on individuals and business, should be reduced.

Thus, my question on this issue is not concerned with the need for a tax cut. It is rather, concerned with the fact that the President in pushing for a tax cut seemingly is overlooking some mighty important old-fashioned economic facts of life.

I am certain that most Americans are aware of the fact that, unless you keep a close check on what you earn, what you spend, and what you owe, financial disaster is unavoidable. The individual citizen, I am sure, knows that you cannot take in less, spend more, and still be able to keep food in the pantry, pay off the mortgage, and keep up with the bills.

This is not a matter of complex economic theory. It is simply a matter of plain arithmetic and commonsense—a part of everyday life which all of us must face up to.

And the same simple economic factor—that there must be a balance between income, spending, and debt—ap-

plies just as much to Government as to the individual, despite all the vague and conflicting theories the economic brain-trusters weave in their ivory towers.

Unless Government maintains this balance we, as a nation, are asking for financial chaos. Unless we of this Congress, in acting upon this tax cut, recognize the unalterable relationship between taxes, spending, and debt, our Nation will ultimately discover the unpleasant truth in the old adage that sooner or later you have to pay the piper.

[P. 17162]

Now, the President has said we will all prosper with a tax cut; that unemployment and all our other national problems will somehow vanish with a tax cut. But he has made no firm recommendations for implementing needed curbs on governmental spending to make such a tax cut a responsible, fiscally sound action.

He has merely promised, as he put it, to place "an ever tighter rein on Federal spending."

Yes; instead of requesting definite spending limitations, the President apparently is gambling on the predictions of his economic advisers that such a tax cut, without the disciplines of an accompanying clearly defined control of governmental spending, will give us a noninflationary, continuing economic growth at a rate far beyond any we have ever before achieved. In fact, the President even admits his brand of tax reduction will mean going in the red over \$9 billion in each of the next 2 years, after which the predictions of his economic advisers supposedly will start to come true because we all will have more money in our pockets.

Perhaps I am old fashioned, but in my household this is known as wishful thinking, or counting your chickens before they are hatched. Quite possibly we will all have more dollars in our pockets; but the key question that the President and his economists seem to have overlooked is: How much will these dollars be worth? In plain, everyday English, if the President's expectation on which he has based his \$11 billion tax cut plea fails to materialize, we as a nation will be facing an unending tide of huge deficits and fiscal collapse.

Some budgetary experts have told us that in only 5 years this added debt will come to \$50 billion. Others say the debt will mushroom \$75 to \$100 million before the budget can be balanced—if, indeed, it can be balanced. As our distinguished colleague, the gentleman from Wisconsin, the Honorable JOHN W. BYRNES, pointed out just last week:

Such huge persisting deficits are, unavoidably, a recipe for exploding inflation. They have to be paid for. There are only two ways to do it, either we borrow the money back from the people—which means, of course, taking out of our economy as much as a tax cut would put in—or else we must pay for the deficits with cheap money, which means money conjured up by selling bonds to our commercial banks or the central bank.

Judging by the flood of mail that has come across my desk during recent months concerning this tax cut, a vast majority of Americans favor a tax cut; but at the same time they also favor an accompanying limitation on Federal spending.

Most Americans, in other words, are seriously concerned over continued inflation. They know that runaway inflation means runaway prices. They know inflation hurts those among us who need our help most. They know inflation attacks the unemployed, the low- and middle-income wage earners, those on fixed income, the retired workers, and widows. They know everyone suffers when an inflation boom ends, as it must, in total economic collapse.

Now, as I mentioned earlier, the President has promised to control Federal spending; but let us look at the record: Ever since 1960, the administration has promised to control Federal spending but each year the spending has increased over \$5 billion. By the end of next year, this administration's 4 years will have produced a sorry record of a \$20-billion increase in spending.

As a matter of fact, the President's repeated promises to cut spending since 1960 have been accompanied by repeated promises to increase spending on new and costly and questionably necessary programs.

In view of this record, administration promises of governmental economy are meaningless. It is evident that this administration's promises are not enough; we need firm, legally unbreakable commitments to put economy into effect.

It is my belief that such clear cut, carefully spelled out spending limitations are essential in this tax cut legislation if we are to avoid being a Nation chronically in debt, a nation spending itself into bankruptcy.

For this reason—as an individual legislator seeking to provide adequate fiscal safeguards for the future of every American—I will vote for an amendment to the tax bill which will require mandatory economy commitments by the administration—an amendment which will set a mandatory \$97 billion Federal spending ceiling for this year—a ceiling which still is \$4 billion more than the administra-

tion spent last year—and a \$98 billion ceiling for next year.

It certainly seems to me that a prudent administration should be able to exercise the discipline required to meet such fair and moderate limitations. If the individual American family strives and struggles to live within its means, certainly it is not expecting too much to ask our Government to do the same. And certainly, the ceilings contained in this amendment should be more than sufficient to meet the essential requirements of our Nation's needs.

If this amendment succeeds—and I most fervently hope it will—I will then, of course, vote for the amended tax cut bill. If this amendment fails, I will still vote for the bill, giving a much needed tax cut to all taxpayers, both individual and corporate. But my vote will be cast with serious misgivings; and I can only hope, for once, the administration's promise of governmental economy will be honored, instead of being as in the past, empty meaningless words of political expediency.

Mr. GONZALEZ. Mr. Chairman, yesterday I made a statement on the floor of this House in which I discussed certain aspects of the "Separate Views of Republicans on H.R. 8363," the views of the opponents to the tax reduction bill. I would now like to continue my remarks on this important measure.

We have already discussed some of the ramifications of the statement made in the "Separate Views" that "public debt is nonproductive, as compared with private debt." This is a fatal admission, as has been pointed out, because it admits the fact that private debt is productive. Once that premise is admitted it enables us to properly analyze the nature of the public debt and its relation to the economy. A debt is a debt, private or public, and its significance may be determined by following the money for which the debt has been incurred and seeing what has been done with it. If the money has been put to productive use the debt is productive. In the case of a private debt, if the money is used wisely and spent intelligently there will be returns; the debtor will profit and his position will be stronger than ever. This is a very easy principle to see, and, as the authors of the "Separate Views" have seen it, I have offered my congratulations.

In the case of a public debt, if the money is used wisely and spent intelligently, we will be able to observe a similar reaction. This was stated in the Economic Report of the President of January 1963 in this manner:

The central requirement is that the debt be incurred only for constructive purposes

and at times and in ways that serve to strengthen the debtor. In the case of the Federal Government, where the Nation is the debtor, the key test is whether the increase serves to strengthen or weaken the economy.

So that the key question in regard to our public debt is, are we a poor or a rich nation? Are we strong or weak?

"The Separate Views of Republicans on H.R. 8363" is, if I may use the expression, liberally sprinkled with epithets and accusations. This tax reduction bill is called, for example, "morally wrong," and "a fraud." But let us see who is fooling who.

The forces that have opposed Government spending down through the years are the same forces that have consistently been antagonistic to the progressive income tax, and would even abolish it, and are the same forces that oppose the tax reduction proposed in H.R. 8363.

They never tire of drawing analogies between the Federal Government and private business and the family as economic units. Each unit has the problem of living within its budget, the tax-cut opponents say, and an economic unit whose debt continually rises cannot prosper. Yet they see no analogy between the Federal Government and the Consolidated Edison Co. of New York, whose total outstanding debt rose from \$240 million in 1929 to \$1,439 million in 1962; and they see no analogy between the Federal Government and A.T. & T. whose total outstanding debt rose from \$1,148 million in 1929 to \$8,382 million in 1962. The tax-cut opponents delight in pointing out the rising Federal debt, but they see no significance in the fact that while the Federal debt has risen by \$12 billion since 1946, in the same period the net State-local debt has risen by \$58 billion, the net corporate debt by \$237 billion and the net total private debt has risen by \$518 billion. The tax-cut opponents may not see the importance of these statistics, but to any businessman it is clear: so long as wealth in-

[P. 17163]

creases, debts must also increase. Debts, if they are productive, are equities.

These tax-cut opponents have told us that the economic problems of a family and the Federal Government are the same, "You can't spend yourself rich," they say; "deficit spending will lead to bankruptcy," "public debt is nonproductive." But if the economic problems and applicable principles for the family, business, and the Federal Government are the same, how is it that debts are productive when they are private and non-productive when they are public? How

is it that deficit spending is all right for a business but not all right for the Federal Government? Why cannot the Federal Government employ the same principles of capitalism in the area of public investment or spending as business and individuals employ in the area of private spending or investment? Are the tax-cut opponents guilty of using a double standard in evaluating this tax bill and in impugning the motives of its proponents?

The tax-cut opponents have condemned an across-the-board reduction for the individual taxpayer, as contained in the bill before us, but in 1962 they applauded the President's depreciation schedule revision which resulted in tax savings of some \$1.5 billion for business and industry during the first year of its operation. What is equally revealing is the following statement in the "Separate Views of Republicans," at page c25:

The tax bill is also deficient in that it seeks to bring about economic expansion through expanding consumer spending, rather than to provide more effective incentives for increased capital investment.

From this statement, I hesitate to use the word "slip," it would appear that those separate Republicans are not satisfied that of the \$11.1 billion reduction expected to result from this bill over the next 2 years, \$2.3 billion will be of corporate tax liabilities, in addition to the reductions from last year's depreciation schedule revision. What gripes them is that the public, the consumers, who have no lobby, will get tax reductions over the next 2 years in the amount of \$8.8 billions. Such inconsistency, such duplicity on the part of the tax-cut opponents is neither responsible nor moral, fiscally or otherwise.

Mr. Chairman, I hope I have not given the impression that the entire Republican Party opposes this tax bill, or the goals and objectives of H.R. 8363. That certainly has not been my intent, although quite obviously party politics is playing a substantial role on the floor of this House. Many Republican leaders, as well as a good number of important businessmen, have come out openly in favor of tax reductions such as are envisioned in this bill. For example, the Republican Governors of the Nation who met in Denver, Colo., on September 14, 1963, called for a cut in Federal income taxes, and the Businessmen's Committee for Tax Reduction have not only wholeheartedly endorsed this tax reduction bill, but the members of that committee have also urged that those Members of Congress who oppose the bill reconsider their position and work for the

passage of a tax reduction as soon as possible.

Mr. Chairman, at this point in my discussion I would like to introduce for the RECORD the following copy of an editorial that appeared in the Denver Post on September 22, 1963, containing part of the statement made by the Businessmen's Committee for Tax Reduction in support of this bill:

GOP MAKES MISTAKE TO FIGHT TAX CUT

We are amazed by reports from Washington, among them the one from William White on this page today, that House Republicans have decided to make a major partisan fight against the proposed Federal income tax cut.

In theory, the Republican fight is not against the tax cut itself. But the Republican effort to attach a deficit-limiting cancellation clause to the tax cut bill will in fact destroy most of the stimulating effect of the tax cut and could wipe it out entirely.

What the Republicans want to do, specifically, it to attach a rider to the bill canceling the cut unless Federal spending is held to \$97 billion this year and \$98 billion next year. Otherwise, says Representative JOHN BYRNES, Republican, of Wisconsin, spokesman for the House Republicans, deficits expected with the \$11 billion tax cut in the next 2 years could lead to inflation and "financial ruin."

This is politically inspired nonsense. If the Republicans persist in it, and should succeed in their fight, it is they, not President Kennedy, who will have the albatross of "fiscal irresponsibility" hanging around their collective neck in 1964. They will be the ones who will have stifled the effort to get some of the burden of the Federal tax off the economy.

President Kennedy made a powerful and logical case for the tax cut last week, and now the Republicans have replied. Their reply is not impressive.

To get a nonpolitical view of the facts, let us look at what a group of responsible businessmen say:

"The deficits in recent years have, in large part, been the product of the failure of our economy to achieve its full potential because of the burden of oppressive individual and corporate tax rates. If unemployment is to be reduced, if idle plant is to be put into production, and if we are to achieve meaningful long-term economic growth, individual and corporate rates must be reduced.

"We recognize that tax reduction in the magnitude contemplated * * * will add temporarily to an otherwise existing deficit. However, we believe that additional income flowing from the tax cut will bring the budget into * * * balance significantly sooner than if there were no tax cut at all. * * *

"We commend these Members of Congress for their concern and urge them to do everything possible to assure expenditure control. We also sincerely urge them to reconsider their position and to work aggressively for the passage of a tax reduction as soon as possible."

Who are these businessmen? They are members of a committee headed by Henry

Ford II, chairman of the Ford Motor Co., and Stuart Saunders, president of the Norfolk & Western Railway—the most consistent moneymaker among American railroads.

Other members include financiers such as Frazar Wilde, chairman of the Connecticut General Life Insurance Co.; David Rockefeller, president of the Chase Manhattan Bank, and Robert C. Baker, chairman of the American Security & Trust Co., in Washington.

It is quite doubtful that there's a Democrat in the lot. And it's quite certain that men of this caliber are not advocating anything that will lead the Nation to "financial ruin." Since even Congressman BYRNES himself agreed that President Kennedy was dead right in saying a tax cut is urgently needed, there is no sound reason for playing politics with it. There is not even a sound political reason for doing so—considering that the effect would rebound on the Republicans.

This tax cut should be passed. It should be passed soon. And it should be passed without any uncertainty-creating "ifs" or "buts."

Mr. Chairman, I would like to say a few more words about the matter of Federal expenditures. The "Separate Views" contains the following language:

In other words, tax reduction should be accompanied by a reduction, and not an increase, in the level of Government expenditures.

And this language echoes the argument that many tax-cut opponents have been making, along with those who consistently and habitually criticize the Federal Government because it is the Government for all the people and because in order to carry out its constitutional responsibility "to promote the general welfare" it is necessary to spend money. But the "Separate Views" is not the view held by all Republicans. I have made reference to the Governors' conference held by the Republican Governors of the Nation on September 14, and of their position in favor of a tax cut. They also had something to say about Federal expenditures. They favor holding expenditures to present levels. Now, holding expenditures to present levels is not the same as a reduction of expenditures. In this regard the authors of the "Separate Views" and the Republican Governors of the Nation are in disagreement. Of course, there is no necessity for complete agreement between all factions and elements of the Republican Party on every political issue. Nevertheless, it is interesting that some Republicans in Congress are insisting on reduced Federal expenditures whereas the Republican Governors of the Nation want expenditures held to present levels.

There is another quite fascinating aspect of this question of Federal expenditures. It is not so much in the fact

that the President on numerous occasions, from the beginning of his administration, has gone on record in favor of holding expenditures down as much as possible, in favor of limiting expenditures only where "strict criteria of national need" is met. The President stated in his nationwide address of September 18, 1963:

No wasteful, inefficient or unnecessary Government activity will be tolerated on the grounds that it helps employment. We are pledged to a course of true fiscal responsibility, leading to a balanced budget in a balanced full-employment economy.

In these and other statements the President has stated that he will do his part in keeping expenditures down. Such pledges, one would think, should satisfy even the harshest critics, and the fact that the authors of "Separate Views"

[P. 17164]

chose to ignore the President's personal assurances backed up by his actions is of interest in itself.

But what is most interesting is the position these separate Republicans have taken in chastising the President for excessive expenditures in view of the fact that under the law it is Congress that is primarily responsible for expenditures of all public money. The implication from "Separate Views" is that the President alone is responsible for the amount of money spent by the Government. This is plainly not the case. Let us look at the Constitution for guidance on this point.

Article I, clause 7 of the Constitution of the United States of America states:

No money shall be drawn from the Treasury, but in consequence of appropriations made by law.

Under this clause Congress has the clear constitutional responsibility of making all appropriations. Expenditures, after all, cannot be made unless money is first authorized and then appropriated, and under our system Congress does the authorizing and the appropriating. The President can make no expenditures unless Congress authorizes them and appropriates the money for them. We have Appropriation Committees, and bills are regularly introduced which require appropriations. In the case of every bill, both Houses of Congress must agree and vote for passage. We all know this. How is it then that the President is accused of excessive spending? The President merely executes the laws, he does not make them. He cannot spend any money that is not appropriated by Congress.

Secretary Dillon in his testimony before the Committee on Ways and Means

in its hearings on the tax bill made this point clear in response to a question by the ranking minority member of that committee:

One thing I mentioned was that this is not only an executive problem; it also requires the close cooperation of the Congress. There is one example before the House right now in committee, where the President has made a recommendation for a program in agriculture for cotton which would involve a subsidy of 5 cents. The Agriculture Committee yesterday voted 8.5 cents. It will cost us an extra \$100 to \$125 million more than the President wants to spend. It will make it very difficult for the President.

Mr. Chairman, it has been pointed out that the problem with our economy is slack, not inflation. Our industry is operating below capacity and there is high unemployment. These facts represent an enormous waste of resources. Although we have been experiencing an economic rise for about 31 months, although the recession that gripped the country as the present administration took office has been broken, although the unemployment which was nearing 7 percent at that time has been reduced, there is a great need for the slack that still exists to be taken up. The economy needs a boost and the ideal way to accomplish this is to increase consumer spending by reducing taxes.

Expressions of regret have been made on this floor by some of my distinguished colleagues who intend to support the tax bill in the final analysis. Some opposed the rule which was adopted whereby we must now vote on an all-or-nothing basis. Some are reluctant to support a measure which fails to close some of the existing tax loopholes and which extends further advantages to the wealthy and to corporations. There are misgivings and there is skepticism about the ultimate beneficiaries and the overall effects of this tax reduction bill.

I do not quarrel with those of us who sincerely criticize this bill for its shortcomings and who would like to see it improved. Unfortunately, under the rule the bill can no longer be improved in this House as amendments are not in order. I too would like to have the opportunity to vote on improvements, to give the little people a little more than they are getting as things now stand. I too am not satisfied that under the bill the privileged few who benefit from the capital gains tax will benefit even more; I too am not entirely satisfied with the depletion allowances under the present law and as they are perpetuated under this bill; I too would like to see the stock option loophole closed.

But can we ignore the political facts of life, that in this arena practically every

conceivable interest and group in these United States is represented in one degree or another, that we are engaged in an art which involves give-and-take? It is tempting to stand four square for one thing and to vow to stand there until all demands are met. And it is tempting to throw doubts upon the issue, to question, to challenge, to be suspicious, and then after peppering the program full of holes to end up voting for it. I do not question the motives of those who do so, but I cannot because I know that there is as much chance of finding uranium in a chile bowl as there is in finding unanimity in a tax program. We will never all agree on such a complicated matter as taxes.

I support this tax reduction bill and I do not apologize for it.

Mr. PUCINSKI. Mr. Chairman, I rise in support of H.R. 8363, the Revenue Act of 1963, which would reduce the tax burden of the American people by \$11 billion a year when it becomes fully operative.

I rise in support of this legislation because I am convinced that when we have cut through all of the oratory on this proposal; when we reduce this controversy to its lowest common denominator, we come to the inevitable conclusion that if this Nation's economy is to have the forward thrust it needs, the only way to achieve such forward movement is to release the restrictive shackles of our present tax structure which have stifled industrial expansion.

President Kennedy deserves the highest commendation for proposing this bold and imaginative program of economic expansion through tax reduction to this Congress.

Our colleagues on the other side of the aisle can say what they like, but the indisputable fact is that in the long run, it will be vastly more economical to this Government to allow an across-the-board tax cut in order to sustain our economy rather than wait until another recession sets in and then feverishly pass all sorts of pump-priming programs to stimulate the economy. This tax reduction can do more to move America forward than any bill we have considered thus far.

I should like, however, to comment on one aspect of the current debate. Over the weekend, two distinguished members of the minority, the gentleman from Wisconsin, and the gentleman from Missouri, attempted to create the impression on nationwide telecasts that only they and their party are the great disciples of economy; that the rest of us here in Congress on the majority side have no sense of fiscal responsibility and that in

order to curtail our spending sprees, tax reduction must be tied to an assurance by the President that the 1964 budget will not exceed \$97 billion and the 1965 budget will not exceed \$98 billion.

The record will show, Mr. Chairman, that the overwhelming majority of Democrats in the House, along with myself, have supported cuts totaling \$3,378,212,726 in the budget request thus far in this session.

Mr. Chairman, before this session ends, I anticipate supporting an additional \$2.5 billion reduction in budget requests so that it is my hope that by the time this session adjourns, my Democratic colleagues and I will have supported reduction in Federal spending as requested by the Bureau of the Budget totaling more than \$6 billion.

I agree that one cannot vote for this huge tax cut today and then proceed to enact a whole series of new legislation requiring huge expenditures. We will have to be extremely selective in which new expenditures, if any, are approved.

Obviously, something has to give. I intend to support a heavy cut in foreign aid; cuts in the space program; and it is my intention to vote against several new spending programs when they come to the House for a vote.

I do not quarrel with those who suggest we curtail expenditures if we are to give this Nation a significant tax cut. But I do not intend to surrender my own judgment on the merits or demerits of individual appropriation measures as is about to be proposed in the motion to recommit by the gentleman from Wisconsin. The motion to recommit this tax bill, which would establish maximum expenditures, in my judgment, is an abdication of the legislative body's judgment and responsibility. What the gentleman from Wisconsin is in effect saying, when he offers this sort of blanket limitation, is that he has no confidence in himself and his colleagues here in Congress, to deal with the program of economy; he does not believe they can manage the various appropriation bills which come before us.

Such a suggestion is completely refuted by the record which I cited above. I supported a reduction of \$203 million in the second supplementary bill approved here in the House earlier this year. I supported a \$75 million cut in the Interior Department's appropriation this year; \$150 million cut in the Treas-

[P. 17165]

ury and Post Office appropriation; \$309 million cut in the Labor Department and Health, Education, and Welfare appropriation; \$390 million cut in the Department of Agriculture; \$308 million cut in

the State Department appropriation; a \$1.9 billion cut in the Defense appropriation—yes, Mr. Chairman I said \$1,900 million—and many smaller cuts in the lesser agencies.

It is encouraging to note that the Senate is not restoring to any large degree the cuts in the budget requests which we here in the House adopted so far this year with my support.

I need not apologize to anybody for my record of fiscal responsibility. I am confident we will continue making deep cuts in these budget requests, as we have been.

It is my hope, Mr. Chairman, that this much needed tax revision legislation will be adopted today. It is perfectly obvious that the motion to recommit to be offered by the minority is nothing more than a smokescreen to kill the tax cut in the Congress.

Mr. WILLIAMS. Mr. Chairman, for the better part of this year, each Member of this body has devoted a great amount of time studying the ramifications of the tax bill now under consideration. The Committee on Ways and Means held long and extensive hearings, and issued a voluminous and detailed report on the bill when it was finally approved.

I am certain that each Member of this body has approached consideration of this legislation with an open mind, and has attempted to weigh all considerations carefully, hoping to arrive at the decision which would be of the greatest benefit to the most people in this country.

It is unfortunate, indeed, that the House is forced to consider tax measures under a closed rule which prevents separate consideration of each individual item. I did not vote for the closed rule on this legislation, as I felt the House should have been left free to work its will on the bill. The rule was adopted, though, and we now face the limited alternatives of voting for or against the bill as it is presented.

In resolving my position on this bill, I have tried to consider many factors, including the ultimate revenue gain or loss; the effect of our economy over a period of years; the balance of payments; the staggering national debt; the impact on Federal budgetary requirements, and many others. The complex nature of our economy obviates any simple solution.

I have now reached the conclusion that a tax reduction would act as a stimulus to our national economy, resulting in the creation of more jobs, more consumer goods, and more investment opportunities—all adding to our national

wealth. Obviously, it will serve to ease to some extent the burden of taxes now being borne by individuals.

I share with many others in this body a deep concern over the present level of Government spending, and I have hesitated to declare myself in favor of a tax reduction at this time because I have difficulty in foreseeing any appreciable reduction in Federal expenditures at this time, the political climate being what it is. I might add the warning, however, that unless this Congress acts with prudence and exercises fiscal responsibility in passing upon subsequent spending programs, the resultant inflation stemming from deficit spending would more than offset any advantages that might accrue as a result of this tax reduction. The President has made public pledges of economy in Government, predicated on the passage of this legislation, and administration spokesmen here in the House have reiterated these pledges. The American people expect these pledges to be transformed into action, and I am certain that the cooperation of the Congress will certainly follow.

Mr. Chairman, I think it is the responsibility of each Member of Congress to analyze carefully every legislative item that might add to the cost of Government even more carefully in the future than in the past. Many of us have gone on record many times in opposition to various programs of spending advocated by this administration. We have done so in the honest belief that the programs were unnecessary, or that they were duplications of State, community, or private industry programs, and therefore not properly a function of the Federal Government. A hasty and incomplete research effort by my staff reveals that I, for one, have voted against programs totaling nearly \$11 billion in 1961, more than \$6 billion in 1962, and more than \$6 billion thus far this year. These votes in the main were not politically popular, but in the light of our present situation, I defend them as being an exercise of fiscal responsibility and integrity. I would point out with due deference that a tax cut at this time would be more meaningful if a majority of my colleagues had seen fit, also, to oppose these vast spending programs, so as to have avoided the continuing deficits which have occurred year after year.

Mr. Chairman, it is my understanding that a motion will be made to recommit the bill with instructions to add an amendment designed to limit Federal expenditures as a condition precedent to the tax reduction proposed in this bill. I shall certainly support this motion as an attempt to insure something ap-

proaching a balanced budget in the future. It is inconceivable to me that anyone interested in maintaining a sound fiscal condition could do otherwise.

Even should this fail of passage, though, Mr. Chairman, I have reluctantly, and not without some misgiving, determined that I shall support the bill when it is presented for final approval by the House. In taking this position, I will be acting consistently with my record on Government expenditures. I am convinced that the present level of taxation is confiscatory, and that our current tax structure serves to frustrate our economic development. The least that can be said is that the present burden of taxes being borne by the American people creates almost intolerable hardships, and they are entitled to some relief. The bill now before us provides no meat-ax slash in taxes; if it is far from being a cure-all; rather, the reductions are modest and, in my opinion, will act as a spur to private enterprise.

Mr. Chairman, I will continue to resist vigorously any new spending programs, as I will oppose unwarranted expansions of existing programs. I think it incumbent upon all of us to support moves to hold Federal expenses to the minimum necessary to meet the needs of our country and its people. If we discharge this responsibility, we can pass on to the next generation a legacy of sound and responsible government.

Mr. ROGERS of Florida. Mr. Chairman, adoption of this tax cut measure by the House of Representatives will express our continuing faith in the American free enterprise system. We will also serve notice to every branch of the Government that the Congress intends to hold Federal spending in line. That the House is serious in this objective can be clearly seen in the fact that the House has already this year reduced the budget requests by over \$3 billion.

The proposal to give the President the authority to say if a tax cut should become effective should be defeated. This is a decision that must be made by the Congress—the Executive already has too much power.

The House of Representatives, by approving a cut in taxes as a boost to the American economy, has an increased responsibility to watch Federal spending. It is our intention to do just that.

For nearly 8 hours, I have listened to Member after Member call attention to the fact that this bill is the most important measure which will come before the House during this session of Congress.

It is regrettable that this body, the greatest deliberating body on earth, has permitted itself to be bound by a rule

which prohibits the submission of any amendments except those which are offered by the Committee on Ways and Means.

I am certain that there are many Members who are opposed to various provisions of this bill, as I am. No Member of this body should be foreclosed from voicing his objections to this or any measure and proposing amendments that he deems advisable. This right has been denied by the adoption of this rule.

There is no Member of the House who does not recognize the need for a tax cut. The American taxpayers need and deserve relief from the tremendous tax burden which has been thrust upon them. There is a definite need for adjustments in our tax structure to correct inequities which destroy man's incentive to work, to save, and to invest.

If the existing tax structure is a deterrent to our economic growth—and it is; if reductions in income tax rates will tend to create more jobs and increase Federal revenues—and I think it will; if every Member of Congress wants taxes cut—and I am sure they do; what then is the real basis of this controversy?

The able chairman of the Ways and Means Committee has said: "There are two roads the Government could follow toward a longer, more prosperous econ-

[P. 17166]

omy—the tax reduction road or the Government expenditure increase road."

The real issue is whether we vote for a tax reduction and place a ceiling on spending or whether we vote a tax reduction and continue spending.

I am not an expert in the field of taxation or economics. But of one thing I am certain—this country cannot cut taxes, spend more money, pile deficit upon deficit and remain solvent. I was taught to live within my income, save a few dollars for a rainy day and to pay my honest debts. I do not intend to force my son and his children to pay off my obligations. I expect my Government to operate on the same basis.

I do not question the sincerity or good intentions of the President or any Member of this House. But the road to hell is paved with good intentions. Year after year we have voted for more new programs. Year after year we have piled deficit upon deficit until today we are over \$300 billion in debt and 10 cents out of every tax dollar goes for interest on that debt. Pending before the committees in the House and Senate are scores of bills calling for the expenditure of billions of dollars for new programs. I am certain that the sponsors can pre-

sent persuasive arguments to show that each of them is desirable. The question is, are they essential, and if so, how many of them can we afford? What priority should be given to them?

The motion to recommit this bill does not defeat a tax cut. It does not change the measure in any manner or its effective date. It only places a ceiling on spending for fiscal 1964 and fiscal 1965. It places a brake upon the executive and legislative branch beyond which we cannot go if the tax cut is to become effective. In my opinion the ceiling is too high since it exceeds the amount spent in fiscal 1963 by approximately \$4 billion. But at least it is a start down the road toward fiscal responsibility.

The Congress and the President have a joint responsibility in determining Federal spending. Neither can escape the responsibility. We in the Congress are vested with the responsibility of appropriating money. The President is vested with the authority of administering these funds. The adoption of this amendment would place a damper not only on the Executive but upon the spenders in Congress as well.

I want to support a tax cut. I cannot in good conscience do so if our present rate of spending is to continue unhampered.

This morning I received a letter from an old friend of mine who is now teaching school. He wrote, "we need a tax cut with no ifs, ands or buts." I have written him that I, too, want a tax cut, but I do not intend to vote a tax cut for him or anyone else at the expense of the children he teaches. I urge the adoption of the motion to recommit so that all of us in good conscience can vote for this bill.

Mr. MILLS. Mr. Chairman, I yield 15 minutes to the gentleman from Florida [Mr. HERLONG], a member of the committee.

(Mr. HERLONG asked and was given permission to revise and extend his remarks.)

Mr. HERLONG. Mr. Chairman, I am sure that there has never been an issue that has arisen during the 15 years that I have been in Congress that has caused more soul searching on my part than has this bill—and in particular the proposed motion to recommit.

I want to hold down Federal spending. I am even willing to do the politically foolish thing of voting against expenditures in my own district if in doing so I can constructively help to accomplish that result.

Many of you know that every year since 1957 I have been the introducer

of a tax cut bill. The provisions of this bill have varied from year to year but the general principles have remained the same. They were threefold: First, income tax rates are so high as to be incentive destroying; second, the cuts provided in the bill were to be phased in over a 5-year period so that the impact of the cut would be lessened as far as revenues were concerned; third, to make such a tax cut really effective we must at the same time hold the line on Federal spending.

With regard to the first objective sought by our bill, I have pointed out through the years that it was our judgment that the steeply progressive personal income tax rates had the effect of stifling the economy. In short, that we have priced ourselves to the point of diminishing returns taxwise. Besides the corporate tax cut that is in the bill we are now considering, there is a substantial personal income tax reduction as well. It does not follow the exact scale that I would have followed if I had my way. Indeed, the progression in income tax rates, even under this bill, is still much too steep. Further, as our colleague, the gentleman from Tennessee [Mr. BAKER] and I said in our separate remarks in the committee report, we do not believe that enough attention was given to a tax cut in the so-called middle brackets. It has been my purpose all along to try to make it easier for a young man on the way up the ladder to take each successive step upward without having to worry about whether confiscatory tax rates would make it worthwhile for a person to take on the added responsibilities that customarily go with an increase in pay. And I for one intend to continue my efforts even if this bill passes to make the successive steps in the income tax ladder more orderly and less steep.

Nevertheless, the rate structure in the bill we are considering is a step in the right direction. There are some of the so-called reforms in the bill with which I was not in accord. Other suggested reforms with which I disagreed were left out of the bill by the majority vote of the committee. But taking the reform section as a whole along with the rate reduction, the total bill does present to the Congress an opportunity to do something in the way of tax rate reform that in my judgment is long overdue.

As far as the second objective sought by the so-called Herlong-Baker bills is concerned, as I said, they provided for the tax cut to be phased in over a 5-year period. By doing it this way, we felt that the impact on our Federal revenues would not have been as great in any one year as they will be in fiscal year 1965

under this bill. Of course, it is also true that the stimulating effect of a smaller tax cut each year would not have been as great as by the larger two-stage cuts in the present bill—so this argument cuts both ways—nevertheless there is in this bill today a phasing in of the tax cut for the purpose of lessening the impact.

The third feature of each of the so-called Herlong-Baker bills was an attempt to tie in with income tax reduction a reduction in Federal expenditures. Some people have said that the Herlong-Baker bills was in fact the father of this idea of forcing a reduction in spending before a tax cut became effective. When this idea was first advanced, it intrigued me and I made a number of speeches pointing out that holding the line on Federal spending was a necessary prerequisite to tax rate reform. Of course, at the time I was able to indulge myself in the luxury of dealing with the subject in general terms. Because I was not forced to get down to specifics but could talk in general terms it was appealing to the people to whom I talked. But finally in the consideration of this tax bill we did have to get down to the specifics of how this laudable objective could be accomplished as a practical and workable part of this bill. Here was where the trouble started. I found myself in the position of the mice who came up with the brilliant idea that their only salvation was to put a bell on the cat. Everybody agreed with the general idea, but when it came down to the specifics of who was going to put the bell on the cat, it was a different story.

In the several Herlong-Baker bills that have been introduced, you will note that we varied the approach to this problem each time, searching even then for some practical way to accomplish this result, but always finding enough bugs in the way we attempted to work it out to make us try another method the next time we introduced it. Because I still favor the idea and because of the image that such an amendment created in the minds of the folks back home, the first time the question of putting a restrictive amendment in the bill came up in the committee, I voted for it. However, even those who proposed the general idea in the committee have changed their minds several times about how to do this job so that this version we will have today will be the fourth attempt at language designed to accomplish this splendid result.

When I began to really study the effect of each of this particular proposals that attempts to tie in a reduction in spending with a tax cut, I found so many things wrong with it from a practical

standpoint, so many things inconsistent with my own general philosophy of government, that in good conscience all I could do was to abandon the position I had previously taken and settle for the language in section I of the bill.

[P. 17167]

Now, I understand the motion to recommit that we will have this afternoon follows the pattern outlined so masterfully by my distinguished and respected colleague, the ranking minority member of our committee, over nationwide television last week. It will have the effect of creating the same image that I have attempted to create during the 6 years that I have been pushing a tax rate reform bill, but I insist, after having carefully studied this, and as one who has had, and still holds to the conviction that we must hold the line on Federal spending, this motion to recommit is only an image and when you reach for the substance it simply is not there.

Some people have told me that if I were to be consistent with the position that I have taken all along, that I should vote for the motion to recommit simply because of the image, if for nothing more. I can assure you, this would be the easy vote for me from a political standpoint. But when I am convinced, as I am at this time that, contrary to what the gentleman from Wisconsin stated the other night on television, this motion to recommit is not "an unbreakable commitment to control spending"; when I am convinced that it is impracticable and unworkable and unsound, I must change my position.

But this change of position on this particular feature of the bill in no way changed my adherence to the principle of controlled Federal spending. May I say that, if in order to be consistent, I must adhere to a position previously taken even after I have learned that that position is impractical, unworkable and unsound and not in the best overall interest of our country, then it would be a foolish consistency and I plead guilty to being inconsistent. It is, indeed, because I adhere to the principle of holding the line on Federal spending that I oppose this motion to recommit.

Why? Well, let us just look for a moment at the latest version of the motion to recommit which the gentleman from Wisconsin told the American people he would offer. It says in effect that next January, if the President estimates that the expenditures for the total of fiscal year 1964 will not exceed \$97 billion and if the estimated expenditures for fiscal year 1965 will not exceed \$98 billion, that the tax cut will go into effect.

There are many arguments against this type of amendment, such as that this, in fact, gives the President the right to decide whether we will have a tax cut—a right which he asked for early last year and a right which Congress has so far declined to give him—and parenthetically a right which I am not willing to give him—as well as the argument that this would give him the right to make cuts wherever he chose to make them if he wanted to make the tax cut effective—giving him in effect an item veto.

Of course, it is argued that he has this right today because the Executive does not have to spend all of the money appropriated, but never before have we given the Executive this much authority to reduce spending when and where he sees fit as we would if we pass the motion to recommit. But my principal objection to this amendment is that it is not a firm unbreakable commitment to control spending and that it can in fact result in creating a condition that will cause a great deal more Government spending.

Economists tell us that there are but three ways by which our economy can be expanded to the degree that it is necessary in order to provide jobs for the millions of people who are coming into the labor market each year. First, it can be done by increased Government spending which this bill rejects and which I personally reject. Second, it can be done by increasing profits and thereby creating an incentive for people to risk investing their money in enterprises with the hope of being able to retain a larger share of the profits. And, third, it can be done by increasing consumer purchasing power.

This bill, through the corporate rate reduction and the individual income tax rate reduction, does create more profits and increase consumer purchasing power. I submit that this is the only sound way for our economy to achieve the growth it needs. Some of my friends have conceded to me that, of course, the motion to recommit is not an unbreakable commitment and that there is no guarantee that it will have the effect of holding down spending, but that it ought to be put into the bill if only for the psychological effect that it would have on the people back home. They say in effect that this would let them know that we intend to do something about spending.

Well, if the people at home want to hold the line on spending, as I believe that they do, why do we not do it ourselves without passing the buck to someone else? Do we want to be a party to trying to confuse and mislead our people back home into believing that this

amendment will accomplish something when we know in fact that it will not? I may have misled my people back home on occasion, but I have never done it intentionally. If I voted for this motion to recommit and went back home and told them that I had voted for an unbreakable commitment to hold down spending, I would be deliberately misleading them and this I cannot do, knowing what I know at this time.

It is, as I said, an easy vote to vote for this motion to recommit and if you do not think that your people are going to do anything more than think superficially about this, it is a good political vote. It may be that you want to deal at arm's length with your people at home and not tell them the whole truth about an issue like this because you want to take the easy road. I do not. So the argument that we should put the amendment of the gentleman from Wisconsin in the bill whether it means anything or not just for psychological effect is specious.

Some people have also said that the adoption of the amendment would have a psychological effect on the Congress itself; that it would cause us to think twice before we voted for unwarranted authorizations and appropriations. May I point out in this connection that this motion to recommit is not directed to the Congress. It is directed to the President of the United States.

What we would be saying by this amendment is that we do not have to worry about what we vote for in the way of appropriations; that there is someone else who will do the cutting—someone else who will correct our mistakes—that we in Congress are simply giving up our rights and responsibilities to hold the line on spending. So, I reject completely the idea that the motion to recommit, which is not a firm unbreakable commitment would have any psychological effect either on the Congress or on the people back home when they learn, as they will, that it does not guarantee a reduction in spending.

I said earlier that this motion to recommit could possibly lead to greater Federal spending. How can this happen? Let us suppose that the amendment is adopted. Then next January, the Secretary of the Treasury tells the President that he cannot guarantee an estimate of expenditures to be absolutely correct—he will call attention to the fact that ever since 1952 budget expenditures have varied from \$4 to \$6 billion one way or the other from the estimates and it has been almost that far off on the estimates for the remaining part of the fiscal year when half the year is gone.

I frankly do not believe that the Secretary of the Treasury would make a rec-

ommendation to the President suggesting that he give an unrealistic figure in his estimate just for the sake of making the tax cut effective, when he knows that later on he is going to have to ask the President to change the estimate.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I do not have much time left.

Mr. BYRNES of Wisconsin. The gentleman used my name all during the debate.

Mr. HERLONG. I yield to the gentleman.

Mr. BYRNES of Wisconsin. The gentleman is misstating what will happen under the motion to recommit. The Secretary of the Treasury has nothing to do with the estimating of expenditures. It is the Budget Bureau that is the arm of the President in determining the estimated level of expenditures. He has that whole department to determine what the fiscal picture looks like. That is where the President will seek the advice when he comes in and makes his estimate of where we are and where we are going as far as expenditures are concerned.

Mr. HERLONG. Even so he gets a recommendation from whomever he gets it. All of these people get together and work up the data on which the recommendation is based, and regardless of who actually makes the recommendation on which the President acts, in my judgment it will not be an unrealistic recommendation. I do not believe that a recommendation is going to be made suggesting that we are going to meet this figure just for the sake of making a tax cut effective. If at that time a realistic estimate shows that we are going to spend by the end of fiscal 1964 \$97,100 million, and I am saying a figure which

[P. 17168]

is just over the limit, but if the estimate does say that, then we will not have a tax cut, and what does this mean? It means that we will have rejected this method of making our economy grow.

Then the only alternative for the administration to follow to create the jobs that will be needed would be the highly inflationary road of increased Government spending, and those of you who will have voted for the motion to recommit will have been responsible for forcing higher spending or of forcing more unemployment—and the recession that automatically follows. Now, some people have said that they believe that regardless of how much we appropriate the President will submit an estimate that will make the tax cut effective along the guidelines of this proposed

motion to recommit if it passes. If this occurs, as I am sure has been pointed out to you, a supplemental estimate can later be filed and this, of course, would not keep the tax cut from going into effect and would not stop spending either.

But, it is argued that the President would have a moral responsibility to try to live within the amount that he said would be spent. As I said before, believe me, there is nothing exact about the setting of such an estimate, and conditions can rise beyond the control of anyone which would make an additional increased estimate necessary. This could happen even if you believe that the President was going to try to hold spending down. If you do not believe what he has said, then this motion to recommit is no limitation on him whatsoever. Some people have said that if the President did not live up to his moral responsibilities to hold spending down—even though, as I said, it could be beyond his control—that he would be guilty of having misled the American people and he would have done it in writing—and it would be his responsibility and likewise his fault.

This line of thinking seems to be prevalent among too many people today. They do not seem to care if the country goes to the dogs, just as long as someone else can be blamed for it. Well, I for one do not feel that way. In the first place, I am not willing to shift my responsibilities to say how much money is spent, and for what, to the President or to anyone else. I stand here now and say that I am willing to assume my responsibility for holding down spending and that regardless of any pressures that may be forthcoming, I will not vote for any of the bills the President mentioned in his speech the other night.

If enough of you will join me in this resolve, you have got nothing in the world to worry about in this tax bill. If you do not—if you think you can have your cake and eat it too, then all you are going to do by passing this motion to recommit is either mislead the people back home or cause a further avalanche of Federal spending—or be the cause of greater unemployment—and a recession. I do not want that on my conscience and I do not believe you do either.

Mr. MEADER. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I am glad to yield to the gentleman.

Mr. MEADER. I have been listening with great care to the gentleman's attempt to explain his conversion, and I am not clear as to whether he has come to the conclusion that there is no way

in which the Congress can limit spending. Have I understood the gentleman correctly?

Mr. HERLONG. There is no way—there is no practicable, workable way to limit spending in a tax bill. It can be limited in authorizations and in appropriations.

Mr. MEADER. Well, then, after we have authorized and appropriated, the only place where the rate of expenditure can be controlled is by the President; is that not so?

Mr. HERLONG. That is correct.

Mr. MEADER. And do you not think it is appropriate for the Congress to tell him to exercise that power in the fashion that the Byrnes motion to recommit provides?

Mr. HERLONG. I suggest that we exercise it ourselves. Mr. Chairman, I support passage of the bill and oppose the motion which will be offered to recommit.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 10 minutes to the gentleman from Iowa [Mr. JENSEN].

Mr. JENSEN. Mr. Chairman, I have never seen my friend, my esteemed colleague, the gentleman from Florida [Mr. HERLONG] who just preceded me, be caught so far off base. I hold him in the highest esteem. He is an able Congressman and he is generally conservative and right, but not on this question. He apparently is trying to make Members of this House believe that it is not right or proper to put a ceiling and put some spending restrictions on the President of the United States who has by his acts and demands proven to be the most reckless, wasteful spending U.S. President of all times.

Also, he said almost categorically that anyone who voted for the Byrnes amendment is trying to fool the people they have the honor to represent. Well, now, I deal with my people right across the table—face to face—and that is the way most Republicans I know deal with the people they represent, just as we are doing today.

Now, Mr. Chairman, at a meeting of the Republican members of the House Committee on Appropriations this morning the following statement was unanimously approved, and I shall read that statement word for word:

We, the Republican members of the Committee on Appropriations, have carefully considered the proposed spending ceilings for 1964 and 1965 to be offered as an amendment to the tax bill.

Based upon our collective experience during the past 8 months in considering line by line the spending requests of every Federal Agency and Department, our judgment is that the amendment is both necessary and workable.

The ceilings it would impose will be powerful and dependable allies for both the Congress and the executive branch in bringing substance to the unanimous agreement which has been reached that Federal spending must be brought under rigid control.

In our judgment, the ceilings can be met through the appropriations process, including the significant role played by the Executive in initiating that process.

We go beyond this. Based upon our knowledge of the needs of the Federal Agencies, we believe the Government cannot only live comfortably within these ceilings but, with diligence and cooperation between the Executive and Congress, we believe that Federal outlays can be kept well below the amounts specified in the amendment. This belief is based upon the results of the start which has been made this year by the Committee on Appropriations to reduce the swollen Executive spending requests—a start in which we have been joined by most of our Democratic colleagues on the committee.

This may be our last chance to take definite and firm measures to bring Federal spending into a fiscally responsible relationship to anticipated Federal revenues. The adoption of the ceilings by the House will be a commitment to the Nation by its Members, expressing their determination to call a halt, here and now, to perpetual deficits and spiraling debt.

We strongly support the adoption of these spending ceilings and unanimously urge their inclusion in the tax bill. Our support of the amendment constitutes our collective pledge, as Republican members of the Committee on Appropriations, that we will devote ourselves completely to the task of keeping Federal spending not only within the ceilings established by the amendment, but as far below them as possible consistent with the security and welfare of our Nation.

That statement is signed by all 20 members of the House Committee on Appropriations.

In closing, Mr. Chairman, let me assure you, and every Member of Congress, and every American citizen, that whether or not the Byrnes amendment is adopted and whether or not this bill becomes the law of the land, the Republican members of the Committee on Appropriations—and I am sure I speak for almost every Republican in this House—the Republican budget-cutting task force which has been in operation for the past 8 months and has done effective work, will continue in our determined effort to carry on until the budget is in balance and even after that, until we can start paying off on this terrific national debt which is a burden to all the people now and will be a greater burden, not only to those who are living today but to generations yet unborn.

Oh, Mr. Chairman, what cowards we be to unload this terrific debt on future generations for them to pay while we go merrily on enjoying this spending spree, with little thought by the spender

here of what the harvest will be. Any-one who has read the history of the world knows that every nation in recorded history that has gone down this kind of spending road to its ultimate end has come to misery, strife, cold wars, currency depreciation, commodity inflation, to the end the people could not or refused to buy their government bonds and then there was only one recourse left, and that was to start the printing presses rolling out paper currency by the tons, hardly worth the paper it was printed on.

Yes, Mr. Chairman, it can happen in America and it is happening this very minute. Let us do our duty by bringing

[P. 17169]

this criminally wasteful spending to a halt before it is too late.

I see the able chairman of the Committee on Appropriations here, the gentleman from Missouri [Mr. CANNON]. I am sure he agrees with every word I have said.

Mr. ASHBROOK. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] Seventy-seven Members are present, not a quorum. The Clerk will call the roll.

The Clerk called the roll and the following Members failed to answer to their names:

[Roll No. 155]

Bolling	Hosmer	Ryan, N.Y.
Celler	Macdonald	St. Onge
Diggs	Mailliard	Schwengel
Gray	Nedzi	Sheppard
Gubser	O'Brien, Ill.	Whitener
Hansen	Powell	Williams
Harsha	Rivers, S.C.	

Accordingly, the Committee rose; and the Speaker having resumed the chair, Mr. ROOSEVELT, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee having had under consideration the bill H.R. 8363, and finding itself without a quorum, he had directed the roll to be called, when 412 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

Mr. MILLS. Mr. Chairman, I yield to the gentleman from Mississippi [Mr. ABERNETHY] such time as he may desire.

(Mr. ABERNETHY asked and was given permission to revise and extend his remarks.)

Mr. ABERNETHY. Mr. Chairman, as much as I would like to see and enjoy a general tax reduction, I cannot in good conscience vote for this bill.

The Federal Government has increased

its spending at the rate of \$5 billion per year for the past 4 years. The national debt has increased by about \$9 billion every year during this period. The total national debt now stands at \$309 billion; almost \$7,000 for every American family. Interest on this gigantic "loan" is paid by the taxpayers and costs \$10 billion per year.

In the face of this grim fiscal picture, it seems unrealistic to purposely lower revenues by \$10 to \$11 billion a year.

The advocates of a tax cut introduced new terminology into the English language. What we have always known as "debt," they are now calling "planned deficit."

I respectfully submit that in the long run the two terms mean the same thing—misery. I cannot willingly submit the taxpayers of my district to the increased misery of increased debt.

Even the administration's spokesmen who presented the program to Congress admit the tax cut would result in \$9 billion additional public debt in each of the next 2 years. I think the figure will be considerably more, probably double that amount, because the debt increase has averaged \$9 billion for the last 4 years with taxes at the present rate.

During the past 20 years inflation has maintained a recognizable ratio to the national debt. As the debt has risen to \$309 billion, the value of our dollar has fallen to 47 cents.

Unless this trend in fiscal history reverses itself, which is not likely, the so-called "planned deficit" will be paid for in the watered-down currency of inflation.

But the planners of this deficit are gambling that tax reduction will bring about economic growth which will produce greater revenue even at the lower rate, thereby balancing the budget after only 2 years of "planned deficit." This is a long shot. The risk of failure is too great and it is an unnecessary risk.

I would support a tax reduction if it were accompanied by a proportionate reduction in Federal spending. There is plenty of fat in the Federal bureaucracy that could be cut out. For example, the Justice Department might terminate its vendetta against my section of the country. Untold millions could be saved here, to say nothing of the peace and tranquility that would inevitably follow.

Some of the bureaucrats like to point the dirty finger at national defense when the unpleasant subject of fiscal responsibility arises. This sounds good but the facts are that defense spending has remained relatively constant while nondefense, nonessential spending grows every year. Even now, while the administra-

tion urges a tax cut and promises to reduce expenditures, many new and costly programs are pending in Congress and are being pushed by the administration.

In view of the current fiscal situation, I feel that a tax cut at this time would be unwise, unsound, and fiscally irresponsible. Let us first put our house in order, reduce spending, balance the budget, and make at least a modest payment on the debt which we have incurred.

Mr. CURTIS. Mr. Chairman, I yield 5 minutes to the gentleman from Michigan [Mr. FORD].

(Mr. FORD asked and was given permission to revise and extend his remarks.)

Mr. FORD. Mr. Chairman, at the outset I want to say without hesitation or qualification that I intend to vote for the motion to recommit; and I am pleased and honored that I find myself supporting wholeheartedly the arguments, the rationale expressed to us in this Chamber a few minutes ago by the distinguished chairman of the House Committee on Rules, the gentleman from Virginia [Mr. SMITH].

Let me say that the Byrnes motion to recommit is not a pious hope for economy in the Federal Government. On the other hand, the proper definition of the committee language in the bill, in the first portion, is a pious hope, nothing more. The motion to recommit, as I read and analyze it, is a constructive effort to achieve tax reduction. It is not an item veto turned over to the President. It is not a delegation of legislative authority by the Congress of the United States. The motion to recommit simply says to the American people that their President can give to them a long overdue tax reduction providing, in the submission of his budget in January 1964, he estimates expenditures for fiscal 1964 at \$97 billion and estimates for fiscal 1965 at \$98 billion. It puts the burden for a tax reduction or no tax reduction at that point on the President. It makes the President be selective. It makes him make some hard decisions on the basis of priorities. It makes the President say if the tax reduction is as important as he says it is then we in the executive branch of the Government will hold down our expenditures.

From the legislative point of view it seems to me that this motion to recommit is only another legislative tool in our arsenal to achieve fiscal responsibility. We have used, I concede not too successfully, the debt limitation method which is another. I concede this motion is not the most forthright way to do it over a long period of time. The motion to recommit will not be applicable every year, but it is a tool between now and

mid-January that we in the Congress and our President can utilize if this tax reduction is vital.

Of course, we do have in the Congress the appropriations process as our third tool to achieve fiscal responsibility. I must admit that from time to time we do not do as well on this as we should, but nevertheless it is a method and it is not infringed upon by the motion to recommit in any way whatsoever. In fact, they are complementary.

Let me add parenthetically that if the motion to recommit does prevail I intend to vote for the bill, but I add a footnote, that if the motion to recommit is not approved I intend to oppose the bill. It is not sound or fiscally responsible in any way whatsoever for us to have a tax reduction of this magnitude with unlimited spending. We will have unlimited spending by this administration unless we do impose this limitation.

Mr. FINO. Mr. Chairman, will the gentleman yield for a question?

Mr. FORD. I yield to the gentleman from New York.

Mr. FINO. If this proposed amendment to restrict, to curb spending is adopted, will it affect the pay increase scheduled for our Federal employees?

Mr. FORD. In my judgment, the motion to recommit, if it is approved, will in no way whatsoever interfere with the enactment or the approval of the legislation mentioned by the gentleman from New York.

Mr. FINO. I thank the gentleman.

Mr. ROGERS of Florida. Mr. Chairman, will the gentleman yield for one question?

Mr. FORD. Yes.

Mr. ROGERS of Florida. If the gentleman will recall, when we passed the bill before which would have allowed the Committee on Appropriations to put an expenditure limitation on each governmental department, as I recall, the gentleman was violently opposed to that. But now the gentleman wants to use this method by putting an expenditure limitation in effect.

Mr. FORD. Circumstances now are quite different. Our fiscal situation was not comparable and we were not at that time talking about a tax bill. We were talking about appropriations.

[P. 17170]

Mr. ROGERS of Florida. Would the gentleman further yield on that point?

Mr. FORD. Yes, I will yield.

Mr. ROGERS of Florida. Now, I would like to say to the gentleman that the concern that we have is holding down expenditures. As I understand the gentleman, the gentleman says that if

we put a limitation on what may be requested to be spent, it would have the same effect as putting a limitation on spending. This is not true.

I would be hopeful that the gentleman will reconsider his position on the Committee on Appropriations, and if we can reenact the prior law there ought to be an expenditure limitation on each of these departments placed by the Congress.

Mr. FORD. Let me assure the gentleman that I have, and I intend to hold down appropriations. I am sure the gentleman would concede that my voting record in this regard is forthrightly for economy in Government. We are dealing today with an overall spending limitation in order to achieve a tax reduction. We will take care of this today I hope. Because our fiscal situation is desperately serious under this administration, I would consider such an amendment.

Mr. ROGERS of Florida. I thank the gentleman.

Mr. FORD. My principal purpose in taking the floor today was to assure my colleagues, and to say categorically that under the motion to recommit the \$97 billion limitation proposed in fiscal 1964 and the \$98 billion limitation anticipated for fiscal 1965 will not in any way whatsoever jeopardize our national defense program.

Mr. Chairman, what is the evidence on which I can make that statement? First, on June 26 of this year the House reduced the President's budget request for the Department of Defense by \$1,932 million. Yesterday, September 24, the other body reduced the President's military appropriation bill by \$1,674 million. Now, if we assume that the House and Senate conferees simply split the difference—and I must say I am not hoping this is the case—but if we assume they simply split the difference, Congress will have reduced the President's military budget in new obligational authority by approximately \$1.8 billion. You cannot absolutely reflect a reduction in new obligational authority to expenditures. This is particularly true in a sizable portion of the Department of Defense appropriations. But there is a rule of thumb, and based on this rule of thumb, I would say that if we simply split the difference between these two bills in fiscal 1964, there will be through the appropriations process a reduction in the minimum of \$500 million in expenditures.

The Department of Defense expenditures in fiscal year 1964 could be reduced by these appropriation cuts even more than that, but as a minimum a half-billion dollars. If you take the \$97 bil-

lion limitation for fiscal year 1964 proposed in the motion to recommit, it is only \$1 billion less than what the Secretary of the Treasury, I understand, is now anticipating as the expenditures for 1964.

To summarize, Congress has or will provide adequately and constructively military funds for the Department of Defense in fiscal year 1964. So the motion to recommit in and of itself would not jeopardize, it would not straightjacket our military program in fiscal 1964.

In my judgment, the motion to recommit does not deny a tax cut. It will leave adequate funds for the prosecution of our defense program, it will leave adequate funds for the necessary services to be provided for our people. The motion to recommit purely and simply says that if we want a tax cut in 1964 the President must be selective and make a decision between unlimited spending and a reasonable limitation on expenditures in fiscal 1964 and fiscal 1965.

Mr. MILLS. Mr. Chairman, I yield to the distinguished chairman of the Appropriations Subcommittee on the Defense Department, the gentleman from Texas [Mr. MAHON], 10 minutes.

Mr. MAHON. Mr. Chairman, there are some in this Chamber who are troubled about how to vote on certain issues which will be before us later in the afternoon. I am not going to discuss the tax bill because I believe the members of the committee have done and are able to do a better job of discussing the tax bill than I am able to do. I am going to discuss with you, if I may, the proposed motion to recommit.

My thesis is that it will not hold water, it will not save money.

The motion to recommit is not a matter peculiarly related to the Committee on Ways and Means. It is related to all congressional committees, it is related to each Member of this House in a very special way. The rank-and-file Member is entitled to have his opinion evaluated on this issue to the same extent as are the members of the Ways and Means Committee.

I think we must agree that there are two sides to the tax bill, but after considerable exploration I am able to find only one logical side to the proposed motion to recommit the bill.

I say that because a very fundamental issue is involved here, Mr. Chairman. This motion constitutes a partial surrender of the power of the purse by the House of Representatives and by the Congress of the United States. The power of the purse is the major power which the Congress has left, and if we surrender it we go down the drain and

we move toward dictatorship by the Executive. I saw a Member shake his head when I said the issue involved here is surrender of the power of the purse by the Congress, but I do not believe you will shake your head after you have evaluated this situation a bit further.

It is said that this motion to recommit is politically attractive. It is on first reading, I must admit. I was speaking to a Member just a few minutes ago. I said, "I am not interested in how you are going to vote on the bill; how are you going to vote on the motion to recommit?" He said, "GEORGE, I have now read the motion to recommit and I am going to vote against it."

If I know the temper of the people they are unalterably opposed to this abdication of power by Congress. They oppose the surrender of congressional authority to the executive branch, be it under President Kennedy, President Eisenhower, or anybody else. The people of this country do not want us to surrender the power of the purse to President Kennedy any more than they wanted us to surrender the power of the purse to President Eisenhower.

I do not want to go back to my people and say, "I have contributed to the erosion of the power of the Congress, the body to which you elected me," and you do not want to go back and say that. This thing which looks attractive on the surface will, if you peel back the first layer, lose its attractiveness.

This is not an economy motion. It does not save a penny. It just simply says that the President, in submitting his expenditure budget, must submit it at a certain figure in order for the tax bill to take effect. The President can easily say, "I will dribble out the expenditure of money which you have made available to me for a few more years or a few more months, if that is what you want me to do," but he can still set his spending estimate. Bear in mind that this estimate is made 18 months in advance of the end of the forthcoming fiscal year. He can set it at the figure required in the motion. There is no problem there. But in this process Congress will have lost its power and control and will have suspended the sword of Damocles over every congressional district and over the head of every Member of Congress.

Why do I say that? This is the reason I say it. There is carried over from the previous fiscal year many billions of dollars in funds available for expenditure, and we will add to that the expenditures made possible by the present appropriation bills, so the President—regardless of what we do about cutting the remaining bills for 1964 appropriations or what we do about this motion to

recommit—is going to have more money available to spend in 1964 than he would plan to spend or than he would spend.

You might say, "Well, he doesn't have to spend the money Congress appropriates," and he does not always spend the money Congress appropriates, though we have expressed from time to time our conviction that when we appropriate the funds for a project or a program the will of Congress should be respected and carried out. But what we do here under this motion to recommit is to give the Executive a mandate. We say to him, "Now, you must not spend all the money we have appropriated. We may have been too generous in providing appropriations so you cannot spend all that we have provided. You have to be selective. Which projects and programs will you carry out? Which ones will you cut back? Whose districts will be involved? Which programs will be eliminated and which programs will proceed?"

My colleagues, do you come from the South, or do you come from the North? Are you a Republican or are you a Democrat? What sort of millstone do you want to tie around your neck?

I do not think the President would be unfair or want to contribute in any way to the political fortunes of Members,

[P. 17171]

but I can very well imagine that in deciding which money not to spend and which money to spend, some of the people at the lower echelons in the executive branch might tend to try to reward or chastise. We would have no one to blame but ourselves if we give the President the mandate which this motion to recommit offers.

Nobody really thinks this proposal will save any money. It is only a vote of no confidence in the Congress. It is merely an abdication. It is merely saying to the whole wide world that we, Democrats and Republicans, are incompetent to govern and we cannot control spending although the Constitution gives us that authority. We have the power of the purse, but we refuse to use it. That is really the issue here. That is it. There is no bypassing it or sidestepping it.

Mr. HALLECK. Mr. Chairman, will the gentleman yield?

Mr. MAHON. I yield to the gentleman briefly.

Mr. HALLECK. I just want to ask the gentleman this question. Do I understand from what the gentleman is saying that you will join with some of us in voting against these new programs that are being advocated and that he will vote with us in cutting down appropria-

tions so that we will keep expenditures below the \$97 billion level?

Mr. MAHON. I want to say, I am not going to vote with you—but I want you to vote with me in cutting down these appropriations. As a member of the Committee on Appropriations, I have made the motions in the Committee on Appropriations to report every bill this year and we have cut the budget by \$3,600 million. I want Democrats and Republicans to join together in accepting our responsibility in the control of the purse-strings of the Nation.

Mr. HALLECK. Possibly I phrased my question in rather poor fashion when I asked the gentleman if he would vote with me. But let me just say to the gentleman, if he will vote against these new programs and vote to cut down appropriations, I will be there standing with him.

Mr. MAHON. I think that is wonderful. I hope we can all stand together and make the best possible record for economy. I want to see the President's budget cut by \$5 billion plus. And if we cut the budget, I want to give the credit, if there is any, to the Members of the Congress where the credit or blame should be placed; and I do not want to vote for a motion to recommit which will, in effect, give all of the credit to the President.

Not long ago, I went to a rodeo. The cowboys drove some wild Brahma cattle into the corral. They tried to rope them or to ride them, then tried to drive them out a side gate. Those Brahmas were trying to run out every corner and every part of the fence except where the gate actually was. That reminds me of the way the Congress at times does—in looking for a panacea—some easy way—some sugarcoated method to pass the buck. Everybody on this floor knows that is what the proposed motion is, a sugarcoated way to pass the buck and dodge our responsibility for control of spending. This I do not propose to do.

The Scripture says, "Strait is the gate, and narrow is the way."

Strait is the gate and narrow is the way that leads to economy, yet we do not want to enter that gate—we do not want to go through it. We want to have our cake and eat it too. We want to be for economy but we hesitate to pay the price. We will not control the spending of the Government and bring about more economy—and we have brought about economies in many ways—until we face up to our responsibilities in this area.

You cannot be for economy in general, as represented by this blanket that covers everything and touches nothing. If we are going to save money, we have

to be for economy in detail on each and every authorization bill and appropriation bill. That is the only way we can do it. Whoever tries to enter the House of Economy by any other door is in pursuit of an illusion.

The motion to recommit may give trouble to some but it gives me no trouble at all because I take pride in my membership in the House of Representatives and I do not propose to support any action that would belittle this body or diminish its prestige among the people of our country nor do I propose to endorse hanging the sword of Damocles over the heads of my colleagues and over the districts which they represent.

Having received unanimous consent to revise and extend my remarks, I would like to add a few words about the machinery which Congress has already set up and tried out to assure that expenditure control practice is compatible with tax reductions. Congress has the authority and procedure to make its own legislative budget, including an overall expenditure limit. That authority was incorporated, after much thoughtful consideration of the role of the Congress, in the Legislative Reorganization Act of 1946. Let me quote that section because perhaps some Members are not familiar with it. Section 138 (60 Stat., 832, 79th Cong., 2d sess.) provides:

SEC. 138. (a) The Committee on Ways and Means and the Committee on Appropriations of the House of Representatives, and the Committee on Finance and the Committee on Appropriations of the Senate, or duly authorized subcommittees thereof, are authorized and directed to meet jointly at the beginning of each regular session of Congress and after study and consultation, giving due consideration to the budget recommendations of the President, report to their respective Houses a legislative budget for the ensuing fiscal year, including the estimated overall Federal receipts and expenditures for such year. Such report shall contain a recommendation for the maximum amount to be appropriated for expenditure in such year which shall include such an amount to be reserved for deficiencies as may be deemed necessary by such committees. If the estimated receipts exceed the estimated expenditures, such report shall contain a recommendation for a reduction in the public debt. Such report shall be made by February 15.

(b) The report shall be accompanied by a concurrent resolution adopting such budget, and fixing the maximum amount to be appropriated for expenditure in such year. If the estimated expenditures exceed the estimated receipts, the concurrent resolution shall include a section substantially as follows: "That it is the sense of the Congress that the public debt shall be increased in an amount equal to the amount by which the estimated expenditures for the ensuing fiscal year exceed the estimated receipts, such amount being \$—."

For 2 or 3 years Congress attempted to exercise the control contemplated by this statute. The joint committees struggling with the problem decided that estimates of overall expenditure levels made in January or February—for the fiscal year beginning the following June, well in advance of the detailed examination of appropriation requests, were unrealistic, ineffective, and unworkable. The committee determined that the process was a failure and the whole process was abandoned. It was found that the only effective way to reduce Government spending was to reduce authorizations and appropriations.

Thus, expenditure control through the technique of fixing estimates has already been repudiated by Congress.

Those who favor economy in Government cannot afford to divert their attention from the real job of controlling appropriations by pursuing the will-o'-the-wisp represented by the proposed motion to recommit. Let us get on with the program of economy through the only method whereby economy can actually be achieved.

Mr. CURTIS. Mr. Chairman, I yield 5 minutes to the gentleman from Indiana [Mr. WILSON].

(Mr. WILSON of Indiana asked and was given permission to revise and extend his remarks.)

[Mr. WILSON addressed the Committee. His remarks will appear hereafter in the Appendix.]

Mr. CURTIS. Mr. Chairman, I yield 5 minutes to the gentleman from New York [Mr. FINO].

Mr. FINO. Mr. Chairman, it is not difficult to understand the arguments for and against this tax bill.

I do not believe there is any question in anyone's mind that our American taxpayers need and deserve a reduction in the tremendous tax burden they now shoulder.

I do not believe there is anyone who disputes the fact that our sagging national economy needs a fiscal shot in the arm to stimulate the economy.

And, I do not believe there is a Member of this Congress who is opposed to a tax cut.

But it is quite apparent that there is disagreement—substantial disagreement—as to how, when, and under what circumstances a tax cut should be given.

Under this bill, we propose to cut \$11 billion in taxes so that we can relieve our individual and corporate taxpayers from the present oppressive tax burdens.

Few can find fault with the strong arguments in favor of a tax reduction.

I agree that high taxes have prevented our free enterprise system from generat-

[P. 17172]

ing its necessary growth; I agree that only lower taxes will help to achieve the economic expansion so necessary to provide a fully employed economy; and I also agree that a tax cut could stimulate our economy and increase our revenues.

But the serious question is: should we cut taxes on borrowed money? Because that is exactly what we are proposing to do here today.

We do not have a surplus. We do not have a balanced budget. But we do have deficits and a staggering public debt.

I do not agree that we should cut taxes on borrowed money—not when we have another avenue for relief.

We can cut taxes without going deeper in the red. We can cut taxes without borrowing the money. We can cut taxes if we had the intestinal fortitude—the courage—to tap a new source of revenue—an untapped source of revenue which is and has been available to this Government for a long, long time.

Mr. Chairman, the McClellan committee told us last year that gambling in the United States is a \$50 billion a year business—a tax-free monopoly.

Why not tax this industry through a Government-run lottery? No one will be hurt by this type of taxation except the underworld crime syndicates.

The establishment of a national lottery would easily and painlessly pump into the coffers of our U.S. Treasury over \$10 billion a year in new, additional revenue which could be sensibly, realistically, and logically applied toward a tax cut.

A Government-run lottery can accomplish a twofold purpose. It can strike a lethal blow at organized crime in this country and thereby help solve our serious gambling problem and, equally important—if not more important—it would provide our Treasury with over \$10 billion a year in additional income.

In this present situation where we are faced with deficits, unbalanced budgets and a mounting national debt, I do not believe we have the right to ignore or be careless of the tax and revenue advantages offered by a Government-run lottery.

I am certain that an overwhelming majority of our American taxpayers would support a tax cut through a national lottery.

If this Congress is really sincere and concerned with the plight of our taxpayers and really wishes to alleviate the heavy burdens of taxation without getting deeper and deeper in the red, then it should have the guts to consider a Government-run lottery as the most sensible and realistic way to raise reve-

nue to cut taxes. This is the best way—the only way. This, in my opinion, would be morally right, fiscally right. This would be fiscal responsibility.

Mr. CURTIS. Mr. Chairman, I yield 2 minutes to the gentleman from Illinois [Mr. McCLODY].

(Mr. McCLODY asked and was given permission to revise and extend his remarks.)

Mr. McCLODY. Mr. Chairman, the tax bill (H.R. 8363) now before the Congress focuses attention on one of the principal aspects of the congressional role which has perplexed me during the months since January when we received the President's budget.

What can and does the Congress do about gaging the validity of the projected expenditures recommended in the budget? How and in what way does the Congress relate these requested expenditures to the Federal Government's income?

As the gentleman from Missouri [Mr. CURTIS] mentioned earlier, the 1946 Reorganization Act provided for a Joint Legislative Budget Committee, composed of all of the members of the House Ways and Means and Appropriations Committees, and the Senate Finance and Appropriations Committees. This joint committee was expected to review the executive budgetary requests, and after a review and revision, to recommend a legislative budget—a budget bearing the seal of the Congress, having regard for the Nation's needs as well as the ability of the citizens to provide the revenues to meet those needs. It was contemplated that such a Joint Legislative Budget Committee would have an adequate professional staff.

Unfortunately, the Joint Legislative Budget Committee provided by the 1946 act has proved to be unwieldly and inadequate, and legislation has been introduced at this session by the distinguished member of the Rules Committee, the gentleman from Mississippi [Mr. COLMER] and myself and many others to provide a workable body of the Congress to help restore the most important prerogative within our congressional authority—control of the complete fiscal business of our Nation, expenditures and revenues, instead of the wholly inadequate methods which now prevail. The need for this congressional budgetary control was never more clearly demonstrated than today as we debate and try through informal and expedient means to declare that a tax cut which we all earnestly want should be keyed in some manner to Federal spending.

The President would seek to correlate this congressional function through re-

liance on a personal letter to the chairman of the House Ways and Means Committee. The Republican Members will attempt such action by an amendment which will be offered on a motion to recommit. I will support the motion to recommit, notwithstanding that this is a feeble expression of congressional authority, which has been all but lost in the growth in size and power of the executive branch of the Government.

The historic role of the House Ways and Means Committee, to find ways and means of providing Federal revenues to defray needed Federal functions, assumes an abortive exercise by recommending tax changes and reductions which, in effect, renounce the responsibility of providing ways and means to pay the bills, and suggest instead that we do not pay the bills in the hope that the private economy will recover from the restraints and restrictions of bureaucratic controls and heavy taxation in order eventually to make up inevitable and planned deficits.

The proposals of the administration are all in the realm of speculation and admittedly based upon an economic philosophy which is alien to the traditional American system up to this very hour. However smoothly disguised by spokesmen for the administration, or by the President himself, the economic philosophy behind this tax measure is that national prosperity can be manufactured by creating high national deficits.

No longer do we follow the principle of taxing citizens to pay the costs of Government. Under this measure, we vow to spend more than we take in with the untested and untried hope that we will buy national prosperity on borrowed money. And if this untried, untested hope does not materialize, what do the proponents of these theories offer?

You can be sure that there is no intent to restore tax revenue which will be lost by this bill. Instead, we may be sure that further deficits, increased borrowing, and the inevitable inflationary spiral will ensnare us as it has every other nation in history which has sought to produce prosperity from management of the currency, huge deficits, devaluation of the currency, and all of the other manipulations by which administrations have sought the easy way to meet economic problems which require instead the greatest sagacity and courage.

Through our entire peacetime history, every chief executive of our Nation has sought to restrain efforts at reducing revenues below the needs of the Nation. For the very first time, this policy is reversed, and the people of the Nation in great numbers are seeking to restrain

the chief executive from the unwise action which might jeopardize our economy—yes, and destroy our Nation as a great power.

As for me, section 1 of the bill (H.R. 8363) expressing the sense of the Congress indicating that the objective of the bill is to obtain balanced budgets in the near future, coupled with the letter from the President dated August 19, 1963, to the chairman of the House Ways and Means Committee, are not enough. The amendment which will be offered on the motion to recommit to require a declaration of expenditure limits is the very minimum which the Congress should demand and to which the people are entitled if this much needed tax reduction bill (H.R. 8363) is to pass.

Mr. CURTIS. Mr. Chairman, I yield such time as he may require to the gentleman from California [Mr. DON H. CLAUSEN].

(Mr. DON H. CLAUSEN asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. DON H. CLAUSEN. Mr. Chairman, the presentation of testimony and comments on this tax bill has been most revealing. The debate has been eloquent and very deliberate. The major points that have been suggested will stand out in the body of the CONGRESSIONAL RECORD for all of the people of America to see from this day forward. I wish it were possible for every voting American and the people of my district to be present in the gallery of these chambers to see and hear the exchange of views on this tax bill that I have been privileged to wit-

[P. 17173]

ness. Unfortunately, it is not possible for each and every person to be present. This is indeed most unfortunate because it would be the only possible way for voters to fully understand the issue relating to this legislation.

Almost without reservation, every word spoken points out the overwhelming need for a tax reform and revision. There may be varying concepts on how to cut taxes, but generally the debate reveals that everyone wants to cut taxes, as I do. It is simply a question of how you do it and how positive the check on irresponsible, costly programs actually is. I want to associate myself with the remarks of the chairman of the Ways and Means Committee, the gentleman from Arkansas [Mr. MILLS]. I find very little that I can disagree with. He made one of the greatest speeches I have heard on the floor of this House. He presented his case well, but he only told half of the story. I personally have come to know the gentleman from Arkansas [Mr.

MILLS] quite well during discussions on this tax bill. He gave me fair and favorable consideration to recommendations I made for inclusion in this measure. As a matter of fact, nearly every recommendation I made to the Ways and Means Committee favorably influenced the final decision on the particular sections concerned. I am also personally convinced that the gentleman from Arkansas [Mr. MILLS] is fully in agreement, deep in his conscience, with the remarks of the gentleman from Wisconsin [Mr. BYRNES], the gentleman from Missouri [Mr. CURTIS], the gentleman from Virginia [Mr. SMITH], the gentleman from Tennessee [Mr. BAKER], the gentleman from Ohio [Mr. BOW], the gentleman from Missouri [Mr. CANNON], the gentleman from Michigan [Mr. FORD], and nearly Member of this body concerned with responsible government and fiscal integrity.

The only way the interested voter could understand the underlying objective of this debate is to combine the remarks of all these gentlemen into one statement. Your conclusion would be simply this—more emphasis must be placed in the private sector of our economy to handle and resolve problems and less in the public sector. In this I agree. You also would conclude that an overwhelming demand exists for a check on wasteful Federal spending, our balance-of-payments deficit, the increase in the national debt and the ever-increasing expansion of Federal programs. And much has been said about the need for fiscal integrity.

There is one most encouraging aspect attached to this legislation, and it reflects on the credit of the members of the Ways and Means Committee. This bill in no way resembles the proposed tax bill of the Kennedy administration. Next year during the election campaign, if this bill passes, and I am sure that it will, the administration will be claiming credit for a tax cut—claiming credit for all that this bill represents. Let me say here and now, if the President's recommendations had been acted upon, there would never be a tax cut—it would not even clear the Ways and Means Committee let alone be enacted into law. The Kennedy administration's proposals were in direct contrast to the bill we now have before us, and it included items that have been blasted and castigated by both the Democratic and Republican Members of the Ways and Means Committee.

What we are seeing today is a united display of demands for tax cuts. The Republicans, myself included, have been consistently vigilant in alerting the American people to the threats to our

economy and our Nation if we do not practice fiscal integrity. Representative JOHN BYRNES and Representative TOM CURTIS have done an outstanding job of presenting the Republican demand for tax cuts and revisions. Up to this point I see no difference in their point of view and the presentation of Mr. MILLS. They are both for the tax cut. One would ask then, "Why is there dispute or room for debate? Why don't we vote for the tax cut and go home?" Herein lies the fundamental difference: the Republicans want a tax cut but, in view of the history of increasing deficits, they want something more—they want a check on expenditures by the Federal Government. They want it written into law—not left to the same political arena that has failed to check the trend of excessive Federal spending over the past decade.

The reason we feel so strongly about this is because we are no longer an island unto ourselves in this world. We are facing not only the major military threats of our adversaries, we are facing the threat of an economic warfare with Soviet Russia and other federations now forming throughout the world. The Common Market countries of Europe now have more gold reserves than we have because of the imbalance-of-payments problem. Never in our history has the economic strength of this country been challenged so severely—never has the need for fiscal integrity been so great. Our very survival as a nation is at stake.

Now is the time to let the American people know that we intend to guard their economic position in the world with a positive guarantee of fiscal integrity as proposed by Mr. BYRNES' motion to recommit. This would be truly a bipartisan effort that would permit this tax cut to pass almost unanimously as a step toward fiscal reform.

If the motion to recommit the bill to Ways and Means Committee with instructions to include Federal expenditure control does not pass, we will have done only half of the job required. If expenditure control is not included, I cannot in good conscience vote for the bill—much as I would like to do, because we are going right back to the same appropriation process that has caused our fiscal position and leadership in the world to decline. We will go right back to the political arena where hypocrisy undercuts the fiscal integrity of this legislative body. Let us put some teeth in this bill that will bite the hands of those who choose to violate the responsible consideration of appropriations measures.

This will stop the trend toward unwieldy central government and start a

major reform of our tax structure designed to strengthen the units of government closer to our people at the State and local levels. This will restore the strength and vitality to the private sector of our economy and also provide more responsive and responsible services to the people through the unit of government to which they have immediate access.

Mr. CURTIS. Mr. Chairman, I yield such time as he may require to the gentleman from Wisconsin [Mr. SCHADEBERG].

(Mr. SCHADEBERG asked and was given permission to revise and extend his remarks.)

Mr. SCHADEBERG. Mr. Chairman, after listening to the debate through these past 2 days, I, too, want to bring a word of wisdom from the Scriptures to the attention of the House:

And why beholdest thou the mote that is in thy brother's eye, but considerest not the beam that is in thine own eye? (Matthew 7: 3).

I rise in unqualified support of the motion that will be made to recommit and to declare my opposition to the bill in the event that the motion to recommit fails.

Mr. Chairman, I rise in support of the motion to recommit to make tax reduction contingent upon limiting Federal spending to \$97 billion this year and to \$98 billion next year. I declare my opposition to the bill in the event the motion to recommit fails.

I take this position because I believe there is a grave moral issue involved. We are not dealing solely with dollars and cents. We are dealing with the future and welfare of our Nation and our Nation's youth.

We all believe taxes are too high. They have been too high down through the years but if we are going to solve a problem we must deal with the cause of the problem not merely try to manipulate its effects. The cause of high taxes is simply this: we are spending too much. We are spending more than we are taking in and by this very fact we are placing automatic increases in tax needs. You do not solve the problem merely by cutting the amount you are taking in. Certainly it is realistic to assume that tax relief will be a spur to our economy. This has been my position all along, that is why I have consistently voted against spending which is bound to result in increased taxes. You must tailor your spending to income.

Can we justify reducing our own taxes while enjoying a relatively plush economic standard of living and demanding no limit on spending and then turn around and say to our children "You pay for it"? Can we justify mortgaging our

children's future for our own immediate pecuniary gain? Shall we rob our children, steal their substance in order to live off the fat of the land? Shall we ask them to inherit a land too costly to own?

Thousands of Americans have laid down their lives to keep this Nation strong and free. They were willing to make great sacrifices in war for the land they loved. Are we who are recipients of the benefits they purchased for us with

[P. 17174]

their lives unwilling in our own luxury to make sacrifices in peace for the country we love?

Have we become so indifferent to moral standards that we stand today in the midst of plenty demanding charity from our children yet unborn? Shall we mortgage the future in order to enjoy freewheeling today?

I plead with you to think beyond today. I plead with you to consider our Nation's youth who in the President's own words, have no vote, you are asking to pay the bill.

If the motion to recommit passes, I may vote for the bill. However, I will have to vote with reservations for I recognize that even then we will have deficit spending to the tune of some \$8 billion, which is a conservative estimate. Perhaps this is the best bill we can hope to get at this time. We will have an opportunity to see whether or not the administration is as intent as it claims it is on holding down spending. I would prefer that tax reductions hinge on balanced budgets.

I shall continue in the future, as I have in the past, to vote against all spending which is not absolutely necessary and to phase out some of our extravagant Federal programs of questionable merit that are costing our taxpayers billions of dollars. With patience and commonsense we can and we will come to a point at which we will live within our means and pay off in a systematic way our national debt which is bleeding us of \$10 billion each year for interest alone.

Tax reduction? Sí. Limit on spending? Sí. Tax reduction and continued deficit spending? No.

Mr. CURTIS. Mr. Chairman, I yield such time as he may require to the gentleman from Kentucky [Mr. SNYDER].

(Mr. SNYDER asked and was given permission to revise and extend his remarks.)

Mr. SNYDER. Mr. Chairman, I rise in favor of the motion to recommit and in favor of the bill should that motion be adopted, but in opposition to the bill should the motion to recommit fail.

Mr. Chairman, I join with all who eagerly and honestly desire a tax cut. A cut in the tax burden upon our people and our economy is sorely needed. I have, earlier this year, conducted an extensive poll in my congressional district and, more recently, have urged my constituents to write me on this important matter. My newsletter and radio reports have solicited the opinions of my people. Thousands answered the poll. Hundreds responded with their letters and telegrams during the last 6 weeks.

Mr. Chairman, excluding the correspondence that opposes the tax cut for a particular reason, such as the elimination of the 4-percent tax credit on dividends, insurance features, and so forth—my mail still is over 4 to 1 in opposition to a tax cut that does not call a halt to spending. If the administration and my colleagues who say that spending will be reduced are serious, then, there could be no objection to the modest \$1.8 billion reduction from the President's proposed \$98.8 billion budget.

Based on my firm belief that all should live within their income—or at least head in that direction—I shall vote for the Byrnes motion to recommit to require that the tax cut be accompanied by restrictions on spending. If that motion carries, I shall vote for final passage. If the spending restrictions are not adopted, then, in accordance with fiscal responsibility and the mandate of my people, I shall vote against the tax cut and the additional debt upon future generations.

Mr. Chairman, my vote, should the motion to recommit fail, will be a little selfish—a little prejudicial—because I love my son—because I am one of those squares who believes that it is immoral to ask my 3-year-old to assume the debts of my generation. This vote may be called "political suicide" in an urban district but I will be able to sleep at night if my boy should ask, "Daddy, what are you doing with my world?"

Mr. CURTIS. Mr. Chairman, I yield such time as he may require to the gentleman from New York [Mr. ROBISON].

(Mr. ROBISON asked and was given permission to revise and extend his remarks.)

Mr. ROBISON. Mr. Chairman, no one need argue, with me, the case for Federal tax reduction and reform. As one who has done his best to advance the day when this body would consider such action, I am willing to accept nearly all the premises on which that case is based.

I believe the significant factor with which we must deal, in any consideration of tax reduction and reform, is the restraining effect that the present Federal tax structure has had on economic

growth. Our present growth rate is deficient. This fact can be ascertained by reference to statistics or, in a more dramatic fashion, by simply looking at the gloomy streets and silent factories in the so-called depressed areas that dot our Nation.

And yet, this is a curious sort of deficiency. We are not now in a recession and—despite the President's warning that the historic pattern for such downturns indicates we are now, again, about due for one—there are no present indications of a recessionary period in our immediate future.

In fact, the expansion of business we are presently enjoying—a trend that is now some 30 months old—continues to shape up very creditably. Vast numbers of our people are at work and prosperous, and most of our business leaders are looking forward to more profitable operations than they had, earlier this year, anticipated.

Yes, Mr. Chairman, things are good—and yet they are not good enough. Where there should be buoyancy and bounce in the economy, there is, instead, an inherent sluggishness; where there should be confidence, there is a persistent air of uncertainty.

It seems to me that our economy, for far too long, has suffered from what might be called a "tired-blood" condition, and that the underlying cause therefor has been the Federal "tax brake" to which the President referred, this year, in his budget message. That "tax brake" is reflected not just in those gloomy streets and silent factories, but in industrial slowness to replace obsolete machinery and obsolete plants with something better in order to meet the challenge of an increasingly-competitive world. It is reflected in a discouragingly persistent high rate of unemployment that, in turn, finds its own reflection in the racial unrest of which we are all so much aware. It is reflected, too, in our own failure, here in Congress, to bring Federal expenditures into better relationship with Federal revenues, and in our inability to achieve a balanced Federal budget. Perhaps most importantly of all, it is reflected in what the crushing burden of Federal taxation has done to individual initiative and enterprise, and to individual and local responsibility.

Mr. Chairman, I think the vast majority of the American people fully understand all these things, as well as the other arguments supporting the urgent need for tax relief, and I think they may well be aware that the national need for such relief may be paramount to their own individual desire for a re-

duction in the burden of taxation that they each now carry.

And yet, Mr. Chairman, if I understand them correctly, that same majority of the American people seem to be saying to us that they are reluctant to accept any such relief until they have been convinced—as the gentleman from Missouri [Mr. CURTIS] has so ably put it—that they have somehow earned it.

In Lewis Carroll's "Alice in Wonderland," there is a passage—or so I recall—in which a crowd of demonstrators has gathered outside a palace to cry, having misunderstood their instructions, for "Less bread, more taxes."

I do not know whether the American people have, in this instance, like Carroll's demonstrators, misunderstood the situation, or whether instead they speak out of a deep-seated "basic Puritan ethic"—for which phrase we are indebted to Dr. Walter Heller, who has since turned up among the missing—but, whichever the event, I think our hats ought to be off to the American people for displaying a greater sense of personal responsibility and of self-discipline than now abounds here in the seat of their Government.

Certainly, to future historians seeking to assess the mores of the present-day American society, the curious spectacle of a Chief Executive pleading with his people to accept the "sacrifice" of a reduction in their tax load, will be of particular significance.

And, to be perfectly frank about it, I find it rather curious myself, to be here expressing my own reservations about the wisdom of a tax-reduction bill. Clearly, this is a unique opportunity to accomplish the goal for which I have been working for so many years. I am fully conscious of the fact that these opportunities come very rarely; perhaps only once in the average congressional lifetime.

And yet, Mr. Chairman, I do have reservations about this bill in the form in [P. 17175]

which it has come from committee, and, as so many others have been here doing, I feel it is incumbent upon me to explain those reservations to my colleagues as well as to the people I am privileged to represent.

But first let me say a few words about the tax "reform" portion of this bill—and I have intentionally placed quotation marks around the word "reform," because, for those of us who have been advocating a real review and basic reform of not only our present tax structure but of Federal taxing policies as well, this part of the bill comes as a real disappointment. This is not reform; it all

adds up only to more patches on that terribly complex and often inequitable and unworkable and confusing tax-work quilt that we, here in Congress, have inflicted on the people. I am not finding fault with the Ways and Means Committee; goodness know they worked long and hard enough on this bill as it was, and have evidently done the best job they could in this respect.

It may well be, as I have said before, that those of us who advocate true tax reform expect too much of the committee, and that the only way we are ever going to get what we want is through some sort of a device—such as the Commission on Federal Taxation proposed in my bill, H.R. 4059—which would take this complex task out of the arena of politics and into an atmosphere where there could be the objective study and review of the difficult policy questions involved that is so badly needed.

Now, as to the so-called reform proposals in this bill, I have neither the time nor the competence to try to discuss them at length. I would, however, like to comment on a couple of them.

It seems to me that the repeal of the 4-percent dividend credit is not only a step backward, but a long jump backward toward double-taxation of corporate profits—something that an earlier Congress, and I am afraid a wiser Congress, tried to alleviate. I think we will live to regret this decision. I also feel that what the committee did to widen the so-called investment credit loophole was unsound—with the possible windfall to big business that may result therefrom; but perhaps, here, the other body will undo what we are about to do.

On the other hand there is, of course, some good in the reform portion of the bill—and is it not odd how, in our preoccupation with the pros and cons of spending controls in conjunction with this bill which is 310 pages in length, so few of us are talking about this part of the bill, despite its obvious importance?

The one reform item of which I especially approve—since I helped to originate the idea—is that one which will grant a measure of relief from capital gains taxes to many of our senior citizens who sell their homes. Often, their home is the major asset owned by those parents whose families have grown and left them, and who find, in their retirement years, that they can no longer support the cost of such a home. It has always seemed to me that the best way we can help such people to meet the financial burdens that attend old age is to permit them—as far as they can—to take care of their own needs, with dignity, from their own funds. It is my

hope that this provision will permit many of them to do so.

As for the specifics of the rate reductions proposed in this bill, again time does not permit of any real discussion thereof. In a sense, though, I would suppose that they add up to a sort of “reform”—again in quote marks—by themselves. Certainly they represent a step in the right direction—away from those confiscatory, high rates that have so dulled the edge of personal incentive and individual enterprise. And I am sure the business world will welcome the day—unfortunately postponed by virtue of the accelerated-payments provisions in the bill—when Uncle Sam will no longer be the majority partner in every corporation in the country.

And so, now, I come to the hard part of the decision I face—the question of whether or not this bill, at this time, is a morally and fiscally sound step. Can we afford this type of deficit planning? Will the price—which may be eventually expressed in inflation at home and in further cheapening of the dollar abroad—be too costly? Can we—in good conscience—have tax reduction of this magnitude without having first achieved some better degree of control over Federal expenditures than we, in Congress, now have?

As a cosponsor, for several years now, of the so-called Herlong-Baker tax bills, I have already indicated my belief that tax reduction must be related to spending control. I still hold to that belief, and it is for that reason that I strongly support the recommittal motion to be offered, later today, by the gentleman from Wisconsin [Mr. BYRNES].

That recommittal motion—or the concept therein expressed—is a variation of the Herlong-Baker approach. And, in my judgment, it is an altogether reasonable and proper contingency to apply to this bill. It is, if anything, a most liberal and modest attempt to bring the President more effectively into the effort we have been making here in the House this year to establish some sort of a table of priorities among the many and varied demands being made; every day, on the Federal Treasury.

What would it do? In the simplest possible fashion—and there is nothing mandatory about it insofar as any attempt to bind the President's hands is concerned—it would merely mean that the tax reduction we are undoubtedly about to approve would not go into effect unless the President submits to us, next January, an estimate of Federal expenditures of less than \$97 billion for the fiscal year we are now in, and, at the same

time, an estimate of Federal expenditures of less than \$98 billion during the 1965 fiscal year beginning next July 1.

The first contingency—that of \$97 billion for this fiscal year—is well within the range of probability. In fact, it now appears that Federal expenditures—chiefly as the result of cuts made here in the House—will not exceed \$94 billion or maybe \$95 billion this year, even despite what the other body may yet do to the remaining appropriation bills. And, as for 1965, it does seem to me that a figure of \$98 billion—for an administration that has been increasing expenditures at the rate of \$5.5 billion a year during the past 3 years—could find the necessary self-discipline to live within such a limit for at least 1 year.

And at this point I should like to stress—because I feel there has been some public misunderstanding about this recommitment—that this does not involve a cut in the present level of Federal expenditures, which might cloud the stimulative effect we hope the cuts in taxes will have, but merely a cut in future or possible Federal expenditures—an effort, as it were, to contain spending at or near the present level.

And why is it necessary to so bring the President into the picture—when the constitutional responsibility for expenditure control rests squarely with the Congress? Very simply, the answer is this—and I trust I am not being partisan about it: While the President has talked about his commitment to fiscal responsibility and his willingness to accept “expenditure controls”—and I am sure he sincerely means what he says—the record of his administration, so far, indicates that it is just not possible for him to live up to his commitments. And I can understand this, because I can appreciate the political pressures—as I am sure we all can—under which the President must live. It is because of those pressures, that nearly every Presidential proposal that has come up the Hill to us from the White House these past 3 years, for either a new Federal program, or for what is normally called a logical extension of an old program, has been presented to us with an equal sense of urgency.

The President has either been unwilling—or, more likely, unable—to apply that degree of self-discipline required to sort out of the innumerable things the Federal Government might do, only those things it now must do; to limit—to quote from the President’s letter of August 19 to Representative MILLS—expenditures to those “which meet the strict criteria of national need.”

If he does not do that in the first instance, then it follows that he will be inclined, when we in Congress try to apply

that test, to castigate us, as he has, for our own efforts at sorting out priorities in order to control expenditures.

Although the prime responsibility, here, is in Congress, at this stage in our Nation’s economic life, expenditure control ought to be a joint effort by the President and the Congress. It seems to me that the recommitment motion, if adopted, would make it such.

I understand that a number of my colleagues—across the aisle—are presently inclined to vote against the recommitment motion and then against the bill. I can appreciate why they might be reluctant to join in support of what has been inaccurately pictured as a Republican effort to delay or encumber this badly needed bill—even though they often join with us Republicans in an effort to control those expenditures I have been talking about. I say to them that this is not a partisan move—despite what has been

[P. 17176]

said about it. It is, instead, motivated out of a desire to make it more possible for all of us to do the job we know we ought to be doing. Vote against the bill on final passage, if you wish, but join us in so improving it in the event—as I think is most likely—it should happen to pass regardless of what happens to the recommitment.

Should the recommitment fail, then I and most of my colleagues on my side of the aisle will really be faced with a Hobson’s choice. I begin to know, now, how the wheat farmers of America felt earlier this year when faced with an almost impossible choice.

It will be a difficult decision for me, not only because I believe in and have worked so hard for tax reduction, but because I am deeply concerned about the alternative road we will almost surely be called upon to follow if this bill should fail.

The President—quite fairly—has warned us about that alternative. Do you remember what he said in his state of the Union message, in commenting on the tax reduction proposals he would soon make us? Here are his words—and listen carefully:

No doubt a massive increase in Federal spending could also create jobs and growth—but, in today’s setting, private consumers, employers and investors should be given a full opportunity first.

I want to underscore that word “first.”

Did not the President clearly mean that he had decided that the Congress—and the people—were to have this chance to prove what the private sector could do for the country, if that “tax brake” was partly eased—but that, if the Congress—and the people—were unwilling to take

that route, or unable to agree on the details thereof, then Dr. Heller and company were to have an even freer rein than heretofore to see what the country can do for us?

If that analysis of the Presidential meaning is correct—and I think it is—then the burden of our decision today—at least for me—becomes ever clearer.

I do not want to see my country go further than it already has down that alternative road. The ultimate cost of that route, for me, is unthinkable. I would rather take my chances on the hope that this House—this Congress—will begin to live up to its constitutional responsibility of really controlling Federal expenditures. It seems to me that we now have, as at least one result of this debate and the public interest it has aroused, a clear mandate from the people to do just that.

If—should the recommittal fail—and I vote for this bill on final passage, I shall do so with a full sense of responsibility of my obligation to comply with that mandate.

Mr. CURTIS. Mr. Chairman, I yield 10 minutes to the gentleman from Illinois [Mr. COLLIER].

(Mr. COLLIER asked and was given permission to revise and extend his remarks.)

Mr. COLLIER. Mr. Chairman, at this late stage of this debate it is virtually impossible, as most of my colleagues know, to avoid repetition. By the same token there have been many things said in these past 2 days that hardly bear repeating. As one evaluates the issue before us today, it is indeed unfortunate that we cannot look into a crystal ball to a few years hence now for if history is any criterion or experience is the best teacher, I doubt whether the majority of the Members of this House could do anything but support the recommittal motion that will be offered here today. Instead, however, it becomes politically expedient to vote for a tax cut without demanding any spending restraints to justify it because, as we all know, nothing is more desirable than a cut in the dollars which one pays in taxes to his Government.

Furthermore, merely because a tax cut is both necessary and desirable it becomes easy for some to rationalize voting for this bill on the one hand while attempting to sweep the said condition of our public indebtedness under the rug with the other.

I hasten at this point to say to the very distinguished gentleman from Texas who preceded me here in the well that I have no problem whatsoever, just as he apparently does not, with the recommittal motion. However, I think in conviction

we are certainly going in opposite directions. The gentleman from Texas also expressed a grave concern that if there is a cut in Federal spending he wanted to see the Congress get credit for it rather than the Executive. I suggest to him that the way things have been going he need not worry about the latter, if the pattern is pursued in the next couple of years that we have had in the past three. But I care not so much who gets credit for a tax cut, and I think the people back home are less concerned about who gets the credit for it.

I think the people back home are more concerned in cutting Federal spending without particular regard as who gets the credit for it.

Mr. MAHON. Mr. Chairman, will the gentleman yield?

Mr. COLLIER. I am delighted to yield to the gentleman from Texas.

Mr. MAHON. Does not the gentleman agree with me that if this motion should be adopted the people of the country might be led to believe that we are about to have a long-range reduction in spending, whereas all the money appropriated by Congress will eventually be expended. Therefore, it would, I believe, tend to makethem complacent and it might even cause some of our members to let down their guard. But if we keep our eyes focused on the real problem; that is, on Congress in appropriating money as the key to the situation, we will come nearer getting the job done for economy. Let us put the spotlight on the Congress, the place where the work can be done.

Mr. COLLIER. I think the gentleman will agree that the purpose of the recommittal motion is merely to secure from the Executive, if you please, some reasonable promise or a commitment that seeks to provide the restraint fiscally necessary to permit a tax cut.

Mr. Chairman, it seems that in the debate during last couple of days we have forgotten that the sole purpose of the Federal tax system is solely to collect the funds from the taxpayers necessary to meet the cost of those services that the Federal Government or that Government must properly render. Now, of course, we find ourselves in the unfortunate position of using the tax structure in an attempt to stimulate a lagging or spotty economy.

Mr. Chairman, it is my further opinion that an honest tax cut should be predicated upon a reduction of Federal expenditures. Have you ever heard of a State or local government reducing taxes in the face of increased expenditures, and in the face of indebtedness? Well, I have not; and if there is one, I assure the members of the Committee that the

local officials responsible for such action in that particular subdivision of Government would probably have a mighty difficult time being reelected, to say the least.

Mr. Chairman, in recent years it seems to me that many people in top-level positions of Government and in the legislative branch of the Government—have adopted fiscal policies and philosophies that have virtually destroyed what we were all taught to be the basic laws and principles of economics. Congress has passed legislation in recent years in fact which indicates that there is a desire on the part of many Members of this body to even repeal the law of supply and demand. Yet, it had generally been accepted for more than a century and a half by most people in the administrative and legislative branches of the Government that there is a definite relationship between revenues and expenditures. If there was not intended to be such a relationship, there would be no purpose whatsoever of going through the motions of issuing a budget each year. Again in recent years, we have a new concept that there is no relationship, for the new breed of economic theorists and planners have chosen to divorce revenues or the raising of revenues from expenditures. The mute evidence of this lies in the fact that our astronomical national debt is rising; and we all know full well that within the next year and a half as many as perhaps 3 additional increases in the statutory debt ceiling will be necessary.

Mr. Chairman, for whatever it might be worth let me cite this fact to the Members here on the floor. Early this year I took a poll of the people in my district. The district which I have the honor of representing is a district comprised mainly of folk of medium-income-class people, with its share of businessmen, professional people, laborers, and craftsmen. Of the 18,000 returns on a questionnaire which I sent out, 80 percent of the people in the district which I have the privilege to represent said emphatically in a very clearly worded questionnaire, "We do not want a tax cut unless it is accompanied by a cut in Federal spending."

Mr. HOEVEN. Mr. Chairman, will the gentleman yield at that point?

Mr. COLLIER. I shall be glad to yield to the gentleman from Iowa.

Mr. HOEVEN. I will say to the gentleman that I took a similar poll and it has just been completed. I presented the

[P. 17177]

very same question. Eighty-six percent of my constituents who answered that

poll were against a tax reduction unless there were a reduction in expenditures. Only 4 percent of them said that they wanted a tax reduction regardless of cutting expenditures.

Mr. COLLIER. I thank the distinguished gentleman from Iowa for his contribution. I am inclined to believe that would substantially be the result of similar polls if taken in 435 congressional districts on the issue before us. I want to repeat, I do not know of a single Member in this House—though there may be one or two—that might be opposed to a tax cut or who do not think a tax cut would provide a shot in the arm for our economy. At the same time, I feel most sincerely that there should be some indication of good faith on the part of not only the administration but of this body to meet the cost of a tax cut or at least to show good faith in providing some restraint or accept some restraint in order to provide such a tax cut.

I would like to make briefly a few observations on the President's television address the other night in reference to this tax bill. First of all, it is my considered and sincere opinion that were it not for the fact that most of the people in this country today are concerned with the excessive Federal deficit spending. The administration, I am sure, recognized this fact, otherwise it would not have been necessary for the President to go on a nationwide hookup and to sell a tax cut which everyone wants. I think this is entirely obvious.

In that connection, it would be well for us to also review the speech which President Kennedy made on January 25, 1962, in connection with the so-called trade expansion bill of last year. I am sure all of you remember it. At that time he and the proponents of the bill predicted that the enactment of it would result in an acceleration of our economic growth, the development of new markets, expanded employment, improved balance of payments, improved relationships abroad, expansion of foreign markets for American agriculture, and other very glowing results which, some 14 months after the bill has been signed into law, are conspicuous by their absence. And, sadly, there is little indication of anything on the horizon that any of the golden harvest of that proposal will be realized.

Mr. Chairman, I doubt whether my opinion will have any earth-shaking effect on the predeterminations that most of you may have already reached, on the motion to recommit. But we do have an opportunity to vote a tax cut, a necessary and needed tax cut, and we also have an opportunity to tell the American people that we believe a cut in

unnecessary Federal spending should be part of that program. A vote for the motion to recommit is the way every Member of this House can provide a tax reduction yet maintain a solid, sound, responsible fiscal position in doing so.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the distinguished chairman of the Committee on Appropriations, the gentleman from Missouri [Mr. CANNON].

Mr. CANNON. Mr. Chairman, I make it a rule not to mention politics per se on the floor, but in view of the record made yesterday in another body I am constrained to disregard the rule long enough to say that the overwhelming adoption of President Kennedy's peace treaty insures his reelection and return to the White House in 1964.

At the same time, let me say that I also heartily endorse his pending recommendation for a tax cut and for a reduction in expenditures, the two questions now before the House.

The advantages of tax reduction have been too well documented by the speakers who have preceded me to require reiteration. So I address my brief remarks to the second recommendation of the President, the reduction of expenditures.

It is gratifying to note that the Congress has already started on a comprehensive retrenchment program. We defeated the accelerated public works bill—by a bare majority of five, it is true—but we could beat it by a larger majority today.

At the same time all annual appropriation bills reported to date have been materially reduced by the House committees. And it is interesting to note that yesterday the other body also passed the defense bill, a bill carrying half the entire annual budget, with a reduction of \$1.7 billion below the budget estimates, and only a quarter of a billion above the House measure. The final total reduction is between \$1.75 and \$2 billion. Mr. MAHON and Mr. FORD and the other members of the subcommittee are entitled to great credit for this unusual and much-needed retrenchment. We are at every opportunity carrying out this coordinated plan of reducing expenditures. I think you will find that the House will receive and can be depended on to pass all the annual supply bills reported from the committee this year, even the redoubted HEW bill, with material reductions.

Retrenchment in public expenditure is long overdue. For a quarter of a century we have year after year spent more than we took in—more than the annual revenues. Any banker in the Nation will tell you that such a course leads precipitously

down the primrose path to bankruptcy.

The first question asked you when you apply for a loan at your local bank is, "How much do you owe?" and the next is, "How much have you paid on your indebtedness?" You have never heard that question asked on this floor when we were confronted by even the most appalling expenditures.

Nobody ever asks, "How much do we owe?" and you have never heard anybody ask, "How much have we paid on our indebtedness?" For a quarter of a century we have not paid anything on our indebtedness—on the national debt.

If you were consulting your local banker for a loan and he learned you had paid nothing on your loans, his response would be curt and emphatic.

In all the long and eloquent discussion of public finances on this floor, during that time I have never heard any advocate of spending refer to the amount we owed or to the time we expected to pay it back. That is hard to believe but it is true.

It is one of the most absurd situations imaginable. The United States, one of the solvent nations of the world, whose dollar is the world standard of value—borrows billions and we never ask how much we owe and we never pay anything on account. We have borrowed money and borrowed money. But we have never paid a cent on the public debt.

The result is disastrous. The interest alone on the public debt now amounts to \$10 billion. We must first pay \$10 billion every year in interest on the national debt before we consider any other expenditure.

That is almost as much as the taxpayers will get out of the remission of taxes provided by this entire bill.

Just a few years ago \$10 billion covered our entire annual budget. So we propose here—if we look at the bill alone—not only to continue deficit spending but we propose to add to it \$11 billion more. Where will we get it? We have to go out and borrow first the amount due on this year's deficit and then borrow \$11 billion more.

If we continue this much longer, we will not be able to extract from the taxpayers enough cash from their paychecks to cover the interest on the national debt.

How much is \$10 billion? It is so much that nobody on this floor is capable of comprehending the amount of buying power involved. A recent fable illustrates this. A man gave his wife a million dollars with instructions to spend \$1,000 a day. She took the million dollars and spent \$1,000 every day. In 3 years she was back for more. This time

he gave her a billion dollars—and she did not come back for 3,000 years.

Mr. Chairman, we have here a singular situation.

After every war in our history we have always rescinded all war taxes. But after the last war we continued unabated every war tax on the statute books—including all the nuisance taxes. We are taxing the American people today at the excessive rate levied while the war was in full blast. We are pulling in the greatest revenues ever enjoyed by this or any other nation in the history of the world.

And the astonishing thing is that with this tremendous war taxation in time of peace, we are every year spending more than we take in and the national debt has steadily increased.

What is it leading to? Where are we going?

After we have enjoyed the short respite from excessive taxation provided by this bill, where will we be and what taxes will we have to pay? That is a prime consideration.

For one thing—a minor consideration perhaps in the eyes of the spenders—a report from the Treasury is that the Government has been paying to borrow these new billions as high as $3\frac{7}{8}$ percent for it. In emergencies when they sell short-term debentures, we have paid as high as $4\frac{1}{2}$ percent. Think of it: The U.S. Government has paid $4\frac{1}{2}$ percent for money. For 100 years, the

[P. 17178]

largest amount the Government ever paid was 2 percent.

What further result?

Ruinous inflation has burned up a large part of the savings of the country. The dollar in the workingman's wages will buy half less than it bought in 1935. When his wife takes a 10-dollar bill to the corner grocery it buys less than \$5 bought in 1935. Half the buying power of his wages has been wiped out and his cost of living has more than doubled. Treasury records show that in 1935 a dollar bought \$1.07 worth of commodities. Today it buys less than 44 cents worth.

I am opposed to increasing the cost of living of every family in the United States, because this Congress—and here is where the trouble is—this Congress year after year spends more money than we take in.

I have never discussed this amendment with any Member on the other side of the aisle. But it is evident on the face of it that it is intended to bring to the minds of the Members of the House, to the attention of the depart-

ments and the administration and the people back home, the importance of discontinuing Government spending until we have the money to spend.

The solvency of the Nation is at stake. The dollar is not only our first financial asset but is the standard of value throughout the world. The gold at Fort Knox is already below our commitments to foreign nations. If through excessive spending—if by spending money we do not have it becomes necessary to devalue the dollar and start printing money, the result will be too catastrophic to be described.

The CHAIRMAN. The time of the gentleman has expired.

Mr. MILLS. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. BYRNES of Wisconsin. Mr. Chairman, I think the gentleman is making a very important statement. I yield the gentleman 3 minutes.

Mr. CANNON. I thank the gentleman from Wisconsin.

Mr. Chairman, they are pressuring Members in the cloakrooms, in the corridors, and all over the House. They said to me: "You are a Democrat. You wouldn't vote for a Republican amendment would you?"

I laughed. I reminded them that under the ironclad, copper-riveted, brass-bound, armor-plate rule under which the House is considering this bill no Democrat can offer an amendment of any kind. You take it or leave it. Even the minority is limited to one amendment—in a motion to recommit. You either vote for that motion or you swallow it hook, line, and sinker—and get no commitment of any kind on spending.

The bill as the committee submits it to the House covers only the President's proposal to reduce taxes. Not a word is said about his proposal to reduce spending. The country is as much interested in controlling spending as in reducing taxes. What is to be gained by reducing taxes if foreign aid and \$40 billion trips to the moon run rampant while the people who pay the taxes go without every day necessities?

Of course I propose to vote for the Republican amendment. It is the only way left to us in this bill of showing our attitude on peacetime spending of war-time taxes—and spending more than you take in—the only way of showing our approval of the President's statement on reduced spending—the only way of indicating to the departments, the Bureau of the Budget, the administration and the rest of the spenders the attitude of people back home on national economizing and reasonable taxes.

It is the only place in this entire bill in which you can record your position

on spending. There is no other opportunity to go on record. Which side are you on?

In the last desperate hour in the Alamo—surrounded by a ruthless foe pledged to give no quarter—burdened by their wounded—with ammunition exhausted—with no rations for days—the captain took a vote. With his sword he drew a line and said “all those who will fight step across this line. All others remain on the other side.”

Gentleman, that is the question this afternoon. Are you for curbing spending when there is no money to spend? Or are you for it? The vote on the motion to recommit is decisive. There is no other test in this bill.

Mr. MILLS. Mr. Chairman, I yield such time as he may desire to the gentleman from Missouri [Mr. RANDALL].

(Mr. RANDALL asked and was given permission to revise and extend his remarks.)

Mr. RANDALL. Mr. Chairman, as I listened to the words of the gentleman from Missouri [Mr. CANNON], the beloved dean of our Missouri delegation, one who is known to all of his colleagues as, “Mr. Chairman,” I noted the attention which he received from every Member in the Chamber. I observed also when he asked for additional time to finish his remarks, because there was no remaining unassigned time on the majority side, the floor manager of the bill on the minority side yielded sufficient time for him to complete his speech. Every Member of the Missouri delegation has the very highest respect for him, and I know also that every Member of the House has high regard for this fine gentleman. It is because of this great respect by everyone and because of the long service as leader of our great Appropriations Committee that makes it so difficult for me to differ from his viewpoint. He indicated he would support a motion to recommit offered by those opposing the bill which would strike out or negate title I of the bill providing for tax reductions if the President’s budget estimates for Federal expenditures rose above \$97 billion for fiscal year 1964 or above \$98 billion for fiscal year 1965.

Mr. Chairman, may I respectfully point out that to support such a motion to recommit in these terms would be passing over to the President a responsibility that rightfully belongs with this Congress. I had heard from members of our Appropriation Committee that its chairman, our distinguished colleague from Missouri, has set as a goal for the Committee on Appropriations, a cut of \$5 billion in the President’s budget for fiscal 1964. If this cut can materialize then we will be very near to the figure

which the minority members of the Ways and Means Committee would agree is an acceptable level of expenditures. The Committee on Appropriations has always done a very effective job in cutting appropriations, year after year, and if you look back over the years, you will find back as far as fiscal 1959 that there has never been a cut of less than a billion dollars below the President’s request except for the one year of fiscal 1961. The fact of the matter is that in some instances there have been appropriations as much as \$3 billion under the President’s request including regular and deficiency. In one year the reduction was close to \$5 billion. During all of these years since I came to the Congress in 1959, I have supported in full the recommendations of the Appropriations Committee. Never once have we offered or voted for an amendment which would increase the figure of any of the appropriation bills. The job of controlling expenditures rests with the Appropriations Committee and the Congress as the years have proven.

The President, in a letter to the chairman of the Ways and Means Committee has indicated that there must be an even tighter rein on Federal expenditures, or as President Kennedy put it, “limiting outlays to only those expenditures which meet strict criteria of national needs.” Those on the other side of the aisle say this gives them an insufficient assurance.

I do not know whether this motion to recommit is a deliberate effort by the minority party to confuse and deceive the American public into believing it constitutes a ceiling on expenditures but if that is their intention they would certainly be deceiving.

I for one recognize that if we vote this tax cut we must control expenditures and we must not vote any new programs. On the other hand, if I were to support this motion to recommit and tell my people that by doing so I was providing for spending control I would be deceiving my constituents. That I will not do.

The motion to recommit which will be proposed has been described during the debate by many different speakers in varying terms of criticism. The rules of the House do not permit mention of some of the descriptions which have reached our ears. The motion has been said to be like an extra large blanket that covers everything but touches nothing. By this it is meant that there is nothing really specific about the motion or nothing selective. To put the matter differently if we as Members support such a motion we relinquish our responsibility and delegate our authority to control expenditures to the President which

rightfully belongs in the Congress. There are some Members who go so far as to say this constitutes an abdication of responsibility.

If the minority party had been able to present a motion which would point out an effective way to control expenditures I would support such a plan. The present motion means nothing. I feel certain that the Members on the other side of the aisle know that we of the Con-

[P. 17179]

gress cannot tie the hands of the President.

This motion is nothing but a gimmick or a device to make it appear that we have voted control and if somehow we can leave this image or make this appearance stand out in profile maybe this will deceive the people. That is exactly what we would be doing. I shall not support a motion which would lead to the deceit of my constituents. It should be remembered, Mr. Chairman, that to support the motion to recommit does not make us fiscally responsible because it contains no commitment from the Congress. The real commitment is found in section 1 of H.R. 8363 where there is recognized the importance of taking all reasonable means to restrain Government spending and wherein the President is urged to declare his accord with this objective.

Those who support the motion to recommit imply that we in the Congress have nothing to say about expenditures. They are saying it all lies within the President's hands. Beyond that such a motion is misleading because it will make many think Congress has set a ceiling which is not true.

Take a hypothetical case, where by some miscalculation we were to go just a little over the limitation imposed by say perhaps only \$200 million in excess of this make-believe ceiling, then we would all become hypocrites. Those on the other side of this aisle by their motion seek to take the onus or burden off the back of Congress and put the weight of all responsibility on the back of the President. The provisions of their motion which give the President authority to strike out a billion or add a billion comes very close to revival of the proposition that the President be given the standby authority to raise or lower taxes upon the happening of certain economic events.

Another reason why no Member should support this motion to recommit is that if they thoroughly believe in the merits of this bill then the provision of this motion if it becomes a part of the enactment may make the whole thing self-defeating. No businessman or industrialist could be sure as to whether

or not there would be a tax cut, and this uncertainty could be the very thing that would remove all enthusiasm from a tax reduction bill and thus we could very well be building into the bill itself a provision that would make it self-defeating.

But the real fear to be reckoned with, if this motion were to pass, is that if there were to be a situation which left the President with no alternative but to exceed \$98 billion in fiscal 1965, then we might not have a tax reduction or tax relief bill but instead a tax increase bill. This is for the reason that their motion provides that unless expenditures are held to a stipulated level title I, which provides for tax reduction, will not become effective but title II, which provides no revenue, would be effective and remain as new law including that section which makes provision for the repeal of certain deductions now allowed. Mr. Chairman, this is not only an effective nor proper means of controlling expenditures but the relinquishment of a responsibility that properly belongs in the Congress in addition to being a dangerous motion because it is possible that it could result in a tax increase.

Tying a second stage tax cut to what the deficit will be on June 30, 1964, is not a promise of a second stage tax cut at all. Businessmen cannot make firm plans based upon speculation. If the provisions provided by this motion to recommit should become law, then all businessmen and industrialists will be uncertain as to their plans and will not be prone to undertake as much plant expansion or modernization as otherwise. The motion could thus not only make the bill self-defeating but is so dangerous it could result in a tax increase.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield such time as he may consume to the gentleman from Texas [Mr. FOREMAN].

(Mr. FOREMAN asked and was given permission to revise and extend his remarks.)

Mr. FOREMAN. Mr. Chairman, I rise to commend the gentleman from Missouri for his very fine remarks. I think the gentleman very adequately answered the statements made by my colleague from Texas.

Mr. Chairman, naturally, I favor a tax cut, but I, along with a great majority of the American people, have the intelligence to recognize we cannot have a meaningful or effective tax cut without a corresponding cut in Federal Government spending programs and activities.

When President Kennedy appealed to the Nation for support for a tax cut, he should have laid all the cards on the table.

While Mr. Kennedy is proposing the

Federal Government give the American people an \$11 billion tax break with one hand, he is also advocating immediately borrowing the money back from them with the other hand, to meet the increased cost of his skyrocketing programs which he refuses to cut.

As a result, Mr. Kennedy is further proposing that the national debt be increased by an amount approximately the size of the tax cut, or to put it another way, we will be borrowing nearly \$11 billion from our children so we can make it easier on ourselves while Mr. Kennedy goes right on increasing spending. In short, this administration proposes to let the next generation hold the bag. The greatest single item in our budget today, following expenditures for defense, is the mammoth \$10 billion yearly interest on our nation debt. Yet, the free-spending "new day" thinkers condemn our "Puritan ethics" for trying to prevent the growth of this debt and the burdensome tax thereon.

Is it any wonder that every sample of public opinion for a year now—including the Gallup and Harris polls and my own personal west Texas poll—shows the American people do not favor a tax cut based on this kind of fiscal juggling? Obviously the President knows this and that is why he has attempted to persuade the American public otherwise.

Mr. Chairman, there is a simple solution to this administration's dilemma and the Republicans have suggested it repeatedly. Call a halt to runaway spending. Hold the line.

We favor a tax reduction. We have been the sponsors of the only two major tax reductions in modern times. I think a majority of us will vote for this proposed tax cut if Mr. Kennedy will join the Members of Congress—Republicans and Democrats alike—in seeking a substantial reduction in planned outlays for existing Federal programs and those authorized but not yet started. Leading Members in his own party in Congress favor it.

If Mr. Kennedy wants public support for a tax cut, if he wants congressional support for a tax cut, then the President should actively help to cut new Government spending programs now.

The chairman of the Ways and Means Committee, the gentleman from Arkansas [Mr. MILLS], has stated that we cannot continue down both roads at the same time, and we must cut spending if we are to cut taxes. Why, then, does the administration and the majority leadership oppose the proposal that we offer to tie spending down, to curb new Federal programs? If they really believe what they say, what is the objection

to the motion to recommit and actually legislate spending curbs?

Mr. Chairman, could it be that the administration talks one way and intends to act another way—as they have in the past? Mr. Kennedy says he is attempting to hold down spending, yet almost every week the Congress is confronted with new administration spending proposals and we are continuously subjected to pressures to pass these new programs.

In fact, during the first 9 months of this year, the New Frontier administration has introduced over a dozen brand new spending programs with costs estimated in excess of \$7,440 million. Seven billion dollars worth of new spending schemes does not sound like much of an austerity program to me.

Earlier this month, for instance, this body passed one of the most wasteful irresponsible, uncontrolled, and uncontrollable Federal spending programs in our history—our foreign aid giveaway. To our credit, this body cut almost \$600 million from this authorization, further reducing the bill to \$3.5 billion from the President's original, so-called, rockbottom figure of \$4.9 billion. After this action by the House, Mr. Kennedy angrily attacked the cut as "shortsighted, unwise, and dangerously partisan." He wants, in fact demands, us to continue this kind of spending and reduce taxes at the same time—an impossible task.

Yet, there are those who fight for all the administration's new spending schemes and support the foreign aid throwaways, who now work hard for a tax cut, pledging they will help cut spending. Since they have not demonstrated a willingness, thus far, to cut spending or to make good on their sweet talk of "fiscal responsibility," I can place little faith in their conversation.

This is precisely the reason that I believe it is imperative that we favorably

[P. 17180]

pass the motion to recommit this bill and definitely tie down spending. This is sound, reasonable, and logical fiscal planning. Those of us who do want a tax cut and who continually work for reductions in Federal spending are asking, and in fact pleading with, our free spending colleagues to help hold the line and get our budget back toward a balance.

Certainly, we all need, the Nation needs, a tax cut, but let us face reality, let us exercise a little fiscal responsibility in order that we can have an effective tax cut. If we can demonstrate our willingness to cut spending programs, I believe many Members of this House would be inclined to support a tax reduction—

but I do not favor, nor can I support, cutting taxes at the expense of increased deficit spending and national debt or at the expense of new and increased tax takes in other areas. The result would be the same—we still pay for big Government extravagance, but out of another pocket.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 3 minutes to the gentleman from Iowa [Mr. GROSS].

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

Mr. GROSS. Mr. Chairman, yesterday when the distinguished chairman of the Committee on Ways and Means addressed the House, he seemed to give us two alternatives. I would like the attention of the gentleman from Arkansas [Mr. MILLS], if I might have it. The gentleman gave us two alternatives, either to vote for tax reduction or to vote for spending. The gentleman said we could not go down both roads. We had to go down one road or the other. Is that approximately correct?

Mr. MILLS. If the gentleman will yield, the gentleman is asking me to answer within his time what it took me 35 minutes to say on yesterday.

Mr. GROSS. No. Am I correct in saying that the gentleman gives us the alternative of one road or the other?

Mr. MILLS. If the gentleman will yield further, the gentleman has oversimplified what the gentleman from Arkansas said. I said that there were two roads and we could go on either as I saw it. We either attempt to solve some of the economic problems we have by a greater reliance upon the private sector, or we are going to do it by more Government spending here, in all probability.

Mr. GROSS. I would like to vote with the gentleman and I would like some help from the gentleman, if I might have it.

Mr. MILLS. I would be glad to lend that help.

Mr. GROSS. Can the gentleman tell me how I should vote on \$355 million boondoggle known as the area redevelopment bill when it comes up?

Mr. MILLS. The gentleman voted against it when it was before the House for consideration before.

Mr. GROSS. I could change my mind, especially if I voted for a tax reduction. Cannot the gentleman now help me in light of this pending bill?

Mr. MILLS. I would think if the gentleman would vote for this tax reduction, it being a bill permitting the opportunity to unshackle the private sector, it would make a great contribution

toward relieving the problems of many areas in the United States.

Mr. GROSS. Does the gentleman still think I should join him in voting for the area redevelopment bill?

Mr. MILLS. No. I am not asking the gentleman to vote for it.

Mr. GROSS. I see.

How about the mass transportation bill that would start at \$500 million and probably cost \$15 billion? I just want to try to vote with the gentleman, if I can, and still vote for tax reduction.

Mr. MILLS. If the gentleman wants to get into specifics, I have no intention of voting for mass transportation at this session of Congress. I have no intention of voting for a lot of other things. I am trying today to get my friend, the gentleman from Iowa, to say it is far better to vote a tax reduction and let the private sector of this country do some of the things that we have been spending money to do in the past.

Mr. GROSS. We have now pending before the Committee on the Post Office and Civil Service the administration's pay increase bill for civil employees of the Federal Government and it is also proposed to increase by several thousand dollars a year the pay of all executives and the Members of Congress.

Mr. MILLS. The gentleman from Iowa is a member of that committee and knows more about the pending legislation before it than I do.

Mr. GROSS. This pay increase bill is going to cost the taxpayers a minimum of a half billion dollars, if it is brought out of the committee and enacted by Congress.

Can the gentleman help me with my vote on that, since he says we have only one of these two roads to travel?

Mr. MILLS. The gentleman is on that committee and knows far more about it than I do. I do not know anything about the arguments for or against the legislation. I do recall that we passed a bill last year, I believe, dealing with the same subject.

Mr. GROSS. I am afraid I am not getting too much help from the gentleman as to how I should vote on spending if I vote for this tax reduction.

Mr. MILLS. I can only speak for what is in the tax bill. I am not an authority on everything that comes before the Congress and I do not allege to be.

Mr. GROSS. Now, we heard a gentleman from Texas a little while ago crying about delegations of power to the President. I think you can still see some of his blood on the carpet here in the well of the House. He was oozing blood from every pore about an alleged delegation of power to the President which he claims

is to be found in the recommital motion on this bill. Some day I hope to find the time to put in chapter and verse the bills that have been passed by Congress in the last 2 or 3 years delegating unconscionable powers to the President. This for the benefit of the gentleman from Texas and others who have been voting for most of these bills. There is scarcely a bill passed but what some of these people who bleed today have voted for this delegation of power to the President. There is scarcely a legislative act of any dimension approved these days that does not provide unholy, delegated power to the Chief Executive and those who cry so loudly and bleed so profusely today are among those who find no trouble in voting for them.

Mr. Chairman, I cannot and will not vote for a broad scale tax reduction bill such as we have before us until and unless the spending budget is brought into balance with revenue. To do so would be the height of irresponsibility and fiscal insanity. Not only should spending be brought into balance with tax revenues before there is a tax reduction, but provision should be made for orderly payments on the Federal debt. Or will we cowardly continue to pile up the debt and pass it on to our children and grandchildren?

Mr. Chairman, I am opposed to this bill.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from North Carolina [Mr. JONAS].

(Mr. JONAS asked and was given permission to revise and extend his remarks.)

Mr. JONAS. Mr. Chairman, I did not choose this time to appear in the debate and believe the remarks I will make should more properly have been made earlier. But there has been a great demand for the limited time that is available. That leads me to say that I voted against the rule because there is not time with only 4 hours on a side to debate a tax bill composed of 304 pages that has been called by the President as the most important piece of legislation coming before the Congress in the last 15 years. If the parliamentary situation permitted, I would right now ask unanimous consent to extend this debate for 4 additional hours because there are a lot of provisions in the bill that have not been discussed before the committee either yesterday or today. I cannot begin to discuss them in 5 minutes, and I am not going to undertake to do so.

I think the RECORD of this debate should show how interesting and downright intriguing it is that the sponsors of this legislation have turned the clock

back 39 years to embrace some of the fiscal policies and philosophies of the Secretary of the Treasury during the 1920's, the late Andrew W. Mellon. That was made crystal clear yesterday when the distinguished chairman of the Committee on Ways and Means even quoted from a book Mr. Mellon wrote in 1954. That caused me to get that book out of the library and I would like to read from pages 179 and 180 of the Mellon bill. Mr. Mellon included in the appendix a letter he addressed to the chairman of the House Committee on Ways and Means, urging a tax reduction program. What he said in the following quotation sounds very familiar to the arguments advanced in support of this bill.

Here is what Mr. Mellon said to the chairman of the committee:

[P. 17181]

Reduce the surtax rates by commencing their application at \$10,000 instead of \$6,000, and scaling them progressively upward to 25 percent at \$100,000: This will readjust the surtax rates all along the line, and the Treasury recommends the readjustment not in order to reduce the revenues but as a means of saving the productivity of the surtaxes. In the long run it will mean higher rather than lower revenues from the surtaxes. At the outset it may involve a temporary loss in revenue, but the Government Actuary estimates that even during the first year, if the revision is made early enough, the net loss in revenue from all the changes in the surtaxes would be only about \$100 million, and that in all probability the revenue from the reduced rates will soon equal or exceed what would accrue at the present rates, because of the encouragement which the changes will give to productive business.

That is the philosophy and basis upon which this bill is before us. I am delighted to see the chairman of the great Committee on Ways and Means nod his head in agreement.

But the other part of the Mellon philosophy has been forgotten by the sponsors of this bill. They have failed to remind the House that as a predicate to Mr. Mellon's proposal to reduce taxes, the national debt had been reduced nearly \$5 billion from its high point in 1919. In each of the preceding 2 years the Government had closed its books with a surplus of \$300 million. It is quite different to propose reducing taxes and, at the same time, propose to increase spending than to advocate reducing taxes in connection with a program of debt reduction and reduced spending.

I do not know of another time in our Nation's history—I could, of course, be wrong about this, because I have not checked the records, but I think I am correct—that any administration has proposed a general tax reduction and at the same time proposed to increase the

deficit and not make any payment on the outstanding national debt. If any member of the committee can cite such a case, I will be glad to yield for him to do so.

When taxes were reduced in 1947, the budget was in balance and a substantial payment had been made on the national debt.

When taxes were reduced in 1954, that action was preceded by a \$10 billion reduction in the last budget submitted by President Truman.

Now it is proposed to reduce taxes while the national debt is still rising, when the budget is out of balance, and when increased spending is proposed.

I do not see how anyone can justify borrowing more money to finance a tax cut.

I favor tax reduction and will gladly vote for this bill if the amendment is adopted. I hope the administration forces will accept the amendment and thus assure an affirmative vote on final passage.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Ohio [Mr. Bow].

(Mr. BOW asked and was given permission to revise and extend his remarks.)

Mr. BOW. Mr. Chairman, it seems to me that on this matter now before the House we have had excellent debate, excellent debate on both sides of the question. May I say that I think that yesterday I heard one of the finest addresses I have heard since I have been a Member of this Congress. The distinguished chairman of the Committee on Ways and Means I felt adequately and fully explained his position and made a great statement of his philosophy of government, with which I agree in many respects. But I must say, Mr. Chairman, I do not agree with him on the question of the motion to recommit. I think it should be passed.

I was thrilled to hear him talk about economy in Government and the road we were going to travel, where we were going and where economy must be exercised. But I was somewhat disturbed when I found out that at the same time the distinguished gentleman from Arkansas was telling us what had to be done and reading to us excerpts from a letter from the President of the United States, the President of the United States at that same time in a so-called nonpolitical swing around the country, was speaking to the people and saying he had to have area redevelopment, accelerated public works, aid to education, and a Youth Conservation Corps. This was said on the same day we were told

we had to go down the new road. And the first-year costs of those items which he told the people yesterday we should have are \$2,431 million.

It seems to me we are going on the highroad and are still on it. As I say, I thoroughly appreciated what the gentleman from Arkansas said. It was a great speech. But it disturbs me when I find that we are still on the road of high spending. We are to try again to pass a bill which this House, exercising the power of the purse, turned down.

I was greatly impressed by the speech of the distinguished chairman of the Rules Committee. My own distinguished chairman of the Appropriations Committee just finished a magnificent address. But I was disturbed by one of the other speeches that was made here today, by the distinguished majority whip, in regard to the programs which he was projecting. He said, "This is not any bill except the Ways and Means Committee's," and I am willing to accept that because I know what a great committee the Ways and Means Committee is. But it is one thing if the distinguished majority whip is willing to go down the road with the Ways and Means Committee on the pronouncements they have made, but when the chips are down will the distinguished majority whip take the pressures that come from downtown to put across the spending bills that many of us think must be eliminated in order to justify a cut in taxes.

Why, he said, we never had inflation like they have had in Germany and in France. No, thank God, we have not had. But if we continue on the road that we are going now, we will have inflation. You cannot say, it cannot happen here. For if in the past we have not had that kind of inflation, let me say to you, neither have we had planned deficits, and there is a difference. When you begin to plan deficits—and you plan deficits—and then you begin to talk about reduction of taxes, you are inviting the kind of inflation that we have seen in other nations.

The CHAIRMAN. The time of the gentleman from Ohio has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield the gentleman 1 more minute.

Mr. BOW. Mr. Chairman, there is much more I would like to say and I was prepared to say, Mr. Chairman, but time will not permit. The motion to recommit does not in any way delegate our powers to control the purse, the motion is in effect the exercise of control over the spending; this we should have done long ago.

I have worked hard and long with other members of the minority of the Ap-

appropriations Committee to cut the budget and we have made real cuts.

I shall support the motion. If the motion fails, a grave problem is presented. I believe in tax cuts, the Nation needs them badly. I have discussed this before. The administration has failed to fulfill their promises of 1960. I am inclined, Mr. Chairman, to have faith in this House if this House passes this bill, the House must cut expenses. Those voting for the tax cut will break faith with the people if they do not also cut the spending.

In the past, Mr. Chairman, I have voted to save billions of dollars of spending. I have voted against increasing the debt limit. I have as have many other Members kept faith with the people on the promises I have made. I must now depend upon the Members to act responsibly in the future to reduce spending. The fate of the Nation lies here in the House. I shall vote for tax reduction hoping the majority will vote to prevent the destruction of this great country of ours by voting against continuing down the road of fiscal irresponsibility.

Mr. Chairman, I yield back the balance of my time.

Mr. MILLS. Mr. Chairman, I yield 5 minutes to the gentleman from Texas [Mr. BURLESON].

Mr. BURLESON. Mr. Chairman, I would be highly presumptuous to discuss the various integral parts of this very complex measure. The Committee on Ways and Means has spent months of arduous study and have heard witnesses by the score and from all walks of life. They have debated among themselves and compromised with one another in order to produce a bill. Now it is before us for acceptance or rejection on a "take it or leave it" proposition since no amendments may be offered under the rule. This is understandably necessary. A tax bill could never be written on the floor of this House.

Under the rule, however, a motion to recommit is in order and becomes the prerogative of the minority to offer it. As I understand the case to be, the gentleman from Wisconsin will propose tying a tax cut to certain contingencies, the consummation of which will depend on the actions of the President of the United States.

I must admit, Mr. Chairman, that my first reaction to this plan, as I understood it, was favorable. I am sure it was

[P. 17182]

to many of you but on careful thought and study, I have concluded that it is an empty gesture; that it fails to do what it first appears is intended; that it holds

dangers to our economy and possible injustices to many.

In the first place it is admittedly easy to circumvent, either by the Executive or the Congress. I think this has been adequately pointed out.

In the second place it could raise taxes by almost \$1 billion as provided in section II, should sections I and III not be effected. If I am correct, and the copy of the motion I have so indicates, it deals only with the sections which are the tax reducing provisions, and not with the section which increases certain taxes. Now Mr. Chairman, this is supposed to be a tax relief and tax reform measure and not just reform to increase some taxes.

Along with others we have sought diligently to find a way to really guarantee reduced spending along with tax reduction. There really appears to be only one sure way and that would be to let a tax bill be the very last action before this Congress adjourns to see how much spending we are willing to cut out. At that time we would have behind us approximately \$5½ billion in authorization requests. In 5 years that will cost the taxpayers of this country \$17,200 billion. We are buying something every time we authorize a measure and the c.o.d.'s will be coming along in time. We weave ourselves into a tight cocoon and there is no other way out but to vote the money when the bills come due.

Where is the responsibility in this matter? Everybody in this House of Representatives knows that the responsibility rests on us. Yes—I may not be above passing the buck to somebody else, when I can do it. But we cannot do that in this instance. The responsibility is here with us. Just 10 days ago this body voted for a new program with a \$20 million initial cost. The merits of that legislation is beside the point. The point is that an entirely new program was voted and the \$20 million is just a starter. You can be certain it will be in the hundreds of millions in time. All Government programs start this way. Out here in the years to come no one can anticipate or estimate what that program is going to cost. Eighteen Members of this House voted against this measure. Look at the record. And look at the record on other spending programs. Words of pious hopes and platitudes soon fade but the record is there. I recall a few months ago that our friends on the minority side offered an amendment to the armed services authorization bill which added over \$350 million to its costs and then, bless you, they finally offered a motion to recommit the

measure with a 5-percent across-the-board cut. That is difficult to understand.

Now, I have heard some fine speeches on economy here in this debate, but look at the record. See who votes for the spending programs. Some of them are desirable, yes, but are they necessary? In the place in which we find ourselves today, could we not postpone some of these things—worthwhile as some may be? Could we not put them off awhile simply because we cannot afford them? Yes, I know we hear from back home from those who want us to support those things beneficial to them or their community. We all have the sensitive political ear. Our radar is built in with our election and the only way sanity in fiscal policy can be attained is through discipline—by denying ourselves that which we cannot afford and a realization that we cannot forever spend more than it is possible to take in.

Now, Mr. Chairman, I am going to vote against these programs in the future and incidentally may I say to my friend, the able and distinguished chairman of the Ways and Means Committee, I do not think I am going to vote to increase the debt limit again in the next month or the next. This is the only way, and we all know it is the only way, to really do what we know this country needs—that is to put behind us the temptation to have more handouts and more programs and more spending and not try to pass the buck some other place. We should not do that which sets a precedent we know nothing about. That is what we will be doing when we attempt to pass this thing to the President. Everyone in this Chamber knows there are 101 ways in which it can be circumvented and I am really surprised at my good Republican friends who want to place in the hands of a Democratic President such power as this.

We hear that the Congress has already abdicated too much authority and responsibility to the executive branch, and yet that is exactly what this recommittal motion would do. I do not want to leave it up to any President. I want to make the decision here on my own, and I am willing to do it. In searching my conscience to act in the way I believe I should, and without casting any aspersions on anyone's motives, if we are willing to face up to our responsibilities, we will do just exactly that. Next year—and I understand it is in the making—there will be a \$3 billion public works bill, which should be quashed now. We should give this country a tax cut and see what the economy does with it, and, as the chairman has said and as the Presi-

dent of the United States has said, we cannot travel down both roads at once. It is a matter, it seems to me, of merely exercising commonsense, and I do not think that is any violation, even here in Washington. Consistency, they tell me, is not necessary in this political life, but it seems to me that commonsense is. That is exactly what I think I am going to do when I vote against this motion to recommit. I do not like to be the victim of a misleading proposition. I do not propose to be a party in an attempt to mislead the people of the country, for I am certain that, if not at this immediate time, all will soon see through the veneer in which this proposal is encased.

I feel deeply that this position is supported by the facts; that it is supported by commonsense; and that it is supported by fiscal responsibility and integrity.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Mississippi [Mr. WHITTEN].

(Mr. WHITTEN asked and was given permission to revise and extend his remarks.)

Mr. WHITTEN. Mr. Chairman, I join with my good friend the gentleman from Mississippi, BILL COLMER, in deploring the fact that this tax bill with its terrific impact in one direction or the other comes up under such conditions that, with all due deference to my very able colleagues on the committee, it has not been fully explained. Not only that, but many arguments have been made which in my opinion are fallacious in many respects; and we in turn have no chance to point out the fallacies, to offer amendment; nor, may I say, any chance to do much of anything.

Mr. Chairman, this bill comes up under closed rule—with only one possible motion permitted, in effect, and that is the motion from the Republican side to make the effective date of the bill contingent upon the amounts recommended in the Presidential budget.

I expect to vote for the motion to recommit, but only to record myself as being in favor of holding down expenditures, for this motion if adopted would not control the President. The President's budget recommendations do not control the Congress. We will continue to see sums recommended by the budget for unsound programs and frequently we will have to restore sound programs in substitution, as we did on my motion to restore the public works appropriation under the Eisenhower administration.

This motion to recommit does offer a chance to record oneself in favor of holding down governmental spending. I am

afraid, however, that part of its purpose is to enable many of my friends on the Republican side as well as on the Democratic side to justify a vote for the tax cut. Had the proponents wished to do so they could have made the motion effective. Had they wanted to make it effective they could have made the tax cut contingent or applicable only following a year in which expenditures were actually held down.

Mr. Chairman, it is my sincere belief all must realize that this tax cut will come at the expense of further inflation, reduced purchasing power for those on social security, for those with life insurance and savings funds, and thereby give no relief. In fact, history shows that to be true. I recall a few years ago when we were told that if the Ruml plan, the so-called pay-as-you-go or forgiveness-for-1-year's taxes were adopted everything would be straightened out and we would stop inflation. The Congress approved that proposal and instead of holding things down, now that taxes are withheld at the source greater and greater are the demands for public expenditures or, may I say, the less the complaint. Everybody figures their salary on what is left.

A few years ago we had the Joint Committee on Overall Budget, the purpose of which was to fix a joint budget, to

[P. 17183]

hold spending in line and to maintain fiscal responsibility. This joint committee was composed of members of the Finance Committee and the Appropriations Committees of the Senate, the Ways and Means Committee and Appropriations Committees of the House, a total of 104 members as I recall. I was a member and made the motion before the committee that 10 percent of the tax revenues be applied on the principal of the national debt annually.

Mr. Chairman, my motion was so sound and the logic of my argument so obvious that I got the support of all the Republicans. Unfortunately, the Democrats were in the majority and my motion lost.

In the 80th Congress the Republicans were in the majority. I renewed my motion before the joint committee that 10 percent of the tax revenues be applied to the national debt. Again my motion was so sound and the logic of my argument so obvious that I received all the votes of the Democrats; but by then the Republicans were in the majority and my motion failed again. I think the point is clear. Those with outstanding commitments on expenditures are slow to vote for sound fiscal policies.

Mr. Chairman, I read to the membership a bill which I introduced sometime ago. This bill has not been included in the tax measure before us today, though I urged members of the Ways and Means Committee to include it. This bill, on which hearings have not been held, points up two things. First, it recalls what has happened to the dollar invested in savings bonds—which now after 20 years, with all the accrued interest, will not buy as much as the original dollars would at the time of investment. Second, it shows that the depreciation of our currency, of the purchasing power of the American dollar, has been a steady one and that it has kept on although we tried the very thing which is being tried here when we adopted the pay-as-you-go or 1-year tax forgiveness some time ago and we cannot get relief in the bill before us.

The bill reads as follows:

H.R. 2921

A bill to protect funds invested in series E United States savings bonds from inflation and to encourage persons to provide for their own security.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) part III of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items specifically excluded from gross income) is amended by redesignating section 121 as section 122 and by inserting immediately before such section the following new section:

"SEC. 121. INTEREST ON SERIES E BONDS WHERE PURCHASING POWER OF REDEMPTION PROCEEDS IS LESS THAN PURCHASING POWER OF ORIGINAL COST.

"Gross income does not include the interest received on the redemption of any series E United States savings bond where the purchasing power of the aggregate of such interest and the price paid for such bond is less than the purchasing power of the price paid for such bond."

(b) The table of sections for such part III is amended by striking out the last item thereof and inserting in lieu thereof the following:

"Sec. 121. Interest on series E bonds where purchasing power of redemption proceeds is less than purchasing power of original cost.

"Sec. 122. Cross references to other Acts."

(c) The amendments made by this Act shall apply to redemptions of series E United States savings bonds made after the date of the enactment of this Act in taxable years ending after such date.

Mr. Chairman, the measure before us is easy to sell because everyone wants to hold on to their money; but it is my sincere belief that it is another step toward fiscal irresponsibility and that

any reduction would come at the cost of further inflation and less and less attention down the years toward collecting what we spend or, to put it another way, spending only what we collect. Only in that way can we have a stable and sound economy—which would have as its just reward purchasing power equivalent to our work and our savings and investments.

In the weeks ahead when the Senate debates this bill, which we have been precluded from doing, many things will doubtless come out, none of which have been stressed in the debate before us.

Why the House of Representatives will allow itself to be so embarrassed each and every time there is a tax measure before us is hard to understand. Again, we have no chance to amend this bill because of the closed rule. The motion to limit its effective date on the basis of a reduced and limited budget by the President really would not be controlling either on him or the Congress.

Again, Mr. Chairman, I have no criticism of any individual nor do I question the sincerity of their viewpoint. I only express my own views, based on my many years of experience and observation of similar panaceas which have been offered and found wanting in times past.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Texas [Mr. THOMPSON].

(Mr. THOMPSON of Texas asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. THOMPSON of Texas. Mr. Chairman, the bill before us today is the most important piece of domestic legislation presented to this body in recent years. I very much regret the obvious partisan attitude we are now witnessing. I wish we were giving our full time and attention to healthy and constructive debate on the substantive issues involved.

The issue before us is simple and clear. Our excessive tax rates are strangling our economy. Not only are they wasting our valuable resources, but they are siphoning off revenue that would be going into the Federal Treasury if our economy were operating nearer its potential.

We all recognize the critical point we have reached with Federal expenditures. The declaration contained in section 1 is acknowledgment of this fact; however, I believe it has more significant meaning in that it places the primary responsibility where it ought to be—in the Congress of the United States which has the final word in the spending process.

Apparently, some of our memories are short. I read with a great deal of interest the views and recommendations expressed by my distinguished colleagues

on the opposite side of the aisle in the majority report of the Ways and Means Committee on the Internal Revenue Code of 1954. I find it most difficult to reconcile their 1954 expressions with those of today, particularly with regard to the basic theory of the stimulative effects of tax reduction. Here are some quotes from their report of 1954:

In general, the purpose of these changes has been to remove inequities, to end harassment of the taxpayer, and to reduce tax barriers to future expansion of production and employment.

The restrictive effects of the present tax law on economic growth have been obscured and somewhat offset during the past decade by the inflationary pressures of the war and postwar periods. It is now apparent that prompt adoption of this new tax law is especially timely in order to create an environment in which normal incentives can operate to maintain normal economic growth.

This bill is a long overdue reform measure which is vitally necessary regardless of the momentary economic conditions and should not be confused with other measures which may be, or might become, appropriate in the light of a particular short-run situation. The bill has been developed through extensive and lengthy study of ways and means of removing tax inequities and tax restraints. Its passage will lead to increased employment and a higher standard of living.

Some other interesting language in this report reads:

However, some of the permanent losses and some of the temporary losses may reasonably be expected to stimulate production and the national income and hence lead to indirect gains in revenue more or less offsetting such losses.

Several of the changes which appear to involve permanent income losses will stimulate production and the national income and thereby expand the tax base both immediately and in the long run.

Mr. Chairman, the same year when President Eisenhower submitted to a Republican-controlled Congress his tax recommendations he also submitted a budget estimating a substantial deficit. As it turned out, this deficit was nearly twice as much as the original estimate. Republicans and Democrats alike accepted this unfortunate fact, but we all realized then that the expected stimulation of the tax cut on our economy would shortly more than offset the temporary loss of revenue. The following 2 fiscal years we had budget surpluses which proved us correct. I might add that in both surplus years Federal expenditures were over and above those of the deficit year I just mentioned. In 1954, the Democratic minority did not insist on writing into the Republican tax bill language such as is being proposed today. We did not need to because we knew who has the final voice in spending the

taxpayer's money. President Eisenhower submitted budgets to Democratic-controlled Congresses for fiscal years 1955 to 1961. Each of those budgets were cut. As a matter of fact, for those 7 years we trimmed a total of almost \$13 billion from his budget estimates.

So let us, the Congress of the United States, fulfill our responsibility to the Nation. The Constitution gave us the exclusive prerogative for both raising

[P. 17184]

and expending revenue. The monkey is on our shoulder and we should not try to buck it to another person. If we did, we would be acknowledging a serious transfer of power from one branch of the government to another and at the same time be attempting to embarrass the President of the United States.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Illinois [Mr. GRAY].

(Mr. GRAY asked and was given permission to extend his remarks.)

Mr. GRAY. Mr. Chairman, thank goodness we do not judge our schoolchildren by what they say in the cloakroom but instead we judge them by the grades they make after studying and taking their examinations. We should judge politicians in the same manner. We have heard throughout this debate our Republican friends over and over again say that they are for a tax cut provided it is accompanied by a reduction in Federal expenditures. Without seeming too political, I would like to go back to the 1960 campaign during which time a large number of prominent Republican candidates, Senators and Representatives including Candidate Richard M. Nixon, came into southern Illinois. These people quoted the 1960 Republican platform and promised the unemployed people of southern Illinois an area redevelopment bill, a pension for World War I veterans, a costlier and stronger national defense and many other vital and necessary programs to accommodate a growing population in America. Candidate John F. Kennedy and others espoused a program to get America moving again. Yet we find our Republican friends are now trying to curtail all of the programs they promised the people they would support in 1960.

We find the Republicans trying to put the President and Congress in a strait-jacket at a time when the population of America is growing by approximately 5 million people annually. This increased population brings on a need for additional services, yet our Republican friends are for moving backward by placing a definite ceiling on expendi-

tures. I hope my Republican friends will be consistent. If they vote for the Byrnes motion to recommit today, I hope they will refrain from attending the Republican National Convention in San Francisco next year at which time another platform will be adopted promising Americans all the things they are now trying to deny them.

The paradox of this entire matter comes when we hear those most prominently mentioned as Republican presidential candidates say "President Kennedy has failed to get the economy moving again." This theme has been echoed by many Republican Members of Congress throughout the country yet when we have a bill before us that will definitely give a stimulus to the economy we find these same critics voting no. How you vote today is your business but I would again ask those who vote for the Byrnes amendment to be consistent and please not go into southern Illinois and other places and promise our people who are in need, every conceivable program that they have no intention of supporting. In closing, I would like to give a parallel between this tax cut bill and a twin-engined airplane. Our Republican friends would like to taxi down the runway with the right engine, representing a tax cut, with full speed ahead, while pulling back on the left engine throttle representing Federal expenditures, with inadequate power.

I am sure everyone could understand that the airplane would never get off the ground with inadequate power. What the President is proposing is for us to give both engines adequate power to get the economy moving at a fast enough pace down the economic runway so that when the economic airplane becomes airborne, we can throttle back on our expenditures to a safe cruising speed thereby reaching our ultimate destination of full prosperity and a balanced budget. Whether it be aerodynamics or the economy of the country it takes forward thrust to gain power. Support this bill and give the country the power to provide new opportunities to those living today and generations to come.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from New Jersey [Mr. JOELSON].

(Mr. JOELSON asked and was given permission to revise and extend his remarks.)

[Mr. JOELSON addressed the Committee. His remarks will appear hereafter in the Appendix.]

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Alabama [Mr. SELDEN].

(Mr. SELDEN asked and was given permission to revise and extend his remarks.)

Mr. SELDEN. Mr. Chairman, I have listened with great interest to the statements that have been made during the past 2 days in connection with the measure now pending before the House of Representatives. I had hoped that I might gather from this debate information that would make it possible for me to vote in good conscience for a tax cut. Unfortunately, that has not been the case.

To reduce taxes when our national debt is greater than at any time in the history of the United States, when the Federal budget is in the red by many billions, and when the present administration is advocating new programs which can only increase rather than decrease expenditures is, in my opinion, an unwise move for the Congress to make.

Unquestionably the taxpayers of this country need relief from the tax burdens they have been carrying for more than two decades. Yet, to give this relief without first reducing Federal expenditures does not exhibit the fiscal responsibility that I believe Congress owes to the people of this country. There is nothing in this legislation, nor in the misleading motion to recommit that is being offered by my colleagues on the other side of the aisle, that will guarantee a reduction of expenditures. Under the terms of the motion to recommit, a budget estimate of \$97 billion submitted by the President would bring about a tax cut. A supplemental request, however, could then increase the budget far beyond the \$97 billion mark.

While I realize my views are in the minority, I am convinced that the only fiscally responsible way to bring about a tax reduction at this time is to reduce, either first or simultaneously, Federal expenditures. In my opinion, Mr. Chairman, it would not be in the best interest of the people of the United States to put the cart before the horse in this connection.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Indiana [Mr. ROUSH].

(Mr. ROUSH asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. ROUSH. Mr. Chairman, I rise in support of the tax bill which we are now considering. I join with many of my colleagues who say that this is one of the most important pieces of tax legislation to be placed before the U.S. Congress in more than a decade and a half.

Very briefly, I would like to outline why I favor this legislation. The pur-

pose of the legislation as stated by our distinguished colleague, the gentleman from Arkansas [Mr. MILLS], chairman of the House Ways and Means Committee, is to loosen the constraints which present Federal taxation imposes on the American economy. Its purpose is to take from the Federal Government the responsibility of doing those things which will cause the American economy to expand and grow and impose that responsibility on the great free enterprise system under which we live.

It is my firm conviction that the results of these tax reductions will be a higher level of economic activity, fuller use of our manpower, and a more intensive and profitable use of the capital improvements and investments of industry.

There are those who argue with great force that a tax cut during this prosperous decade is inadvisable, that it will create new deficits and that it will lead to an inflationary spiral which will work to the detriment of the United States. These arguments have received my own careful study and consideration.

In addition to this, I have given careful study and consideration to the arguments of those who would say that this tax will reduce our deficits, stimulate the economy, make Americans more competitive with the industries abroad, reduce the outflow of gold because it would make investment in this country more attractive and cause our investors to stay at home, and who also say that because we have been able to hold the line against inflation, we can continue to do so.

I have had many of my constituents say to me that they cannot quite see how one can reason that by cutting taxes we will be able to increase the Federal revenues. Yet the great majority of economists and businessmen of this country say that this is exactly what will happen. And they point to history to prove their point.

[P. 17185]

In 1954, the Congress passed tax cuts which totaled some \$7 billion and in 1956 there was a surplus in the U.S. Treasury. In the early twenties, a Secretary of the Treasury by the name of Andrew Mellon, a Republican, was advocating that the Federal taxes should be cut. As a result of his persistence, tax rates were reduced in 1924, 1926, and 1928. In 1923, the Federal revenues amounted to \$1,691 million. In each following consecutive year, tax revenues continued to rise. In 1929, Federal revenues amounted to \$2,231 million. So despite three tax cuts in the twenties,

tax revenue continued to rise. Now why is this? The reason is simply that we were able, through tax cuts, to stimulate the private economy of this country. The taxpayer had more money in his pocket and he spent it. There was a greater demand for goods which, in turn, caused the manufacturer to increase his operation. As he increased his operation, he put more people to work. It has been estimated that, because of this year's proposed tax cut, the gross national product will be increased by \$50 billion. This would mean an additional \$12 billion a year in tax revenue.

Mr. Chairman, I agree with the chairman of the Ways and Means Committee when he says there are two roads by which we can increase the GNP of this country and by which we can arrive at a more prosperous Nation.

One is by the expenditure of public funds and another is by tax reductions. There is a real difference between them. As for me, I prefer to take the tax reduction road and I am convinced that it can bring us to a higher level of economic activity, to a more prosperous economy with a larger share of that activity initiating in the private sector of the economy.

But, Mr. Chairman, I would also emphasize that there is a choice to be made and that we cannot travel both roads at the same time.

It is my view that the statement of principle, as stated in section I of this bill—that Government spending should be held—is one which this Congress should follow. There are Members of this Congress who are going to advocate, in their motion to recommit, that we hamstring the President of the United States in order to hold the spending line. Mr. Chairman, this is not the way to accomplish this purpose.

The responsibility for spending programs lies with the U.S. Congress and it is a responsibility which we should assume. A recent editorial in the Denver Post stated that the move to amend the bill so as to hold spending to \$97 billion this year and \$98 billion next year was politically inspired nonsense.

I believe that one of the most impressive arguments in favor of tax reduction has been the work of the Committee headed by Henry Ford II, chairman of the Ford Motor Co. This Committee has said:

The deficits in recent years have, in large part, been the product of the failure of our economy to achieve its full potential because of the burden of oppressive individual and corporate tax rates. If unemployment is to be reduced, if idle plant is to be put into production, and if we are to achieve mean-

ingful long-term economic growth, individual and corporate rates must be reduced.

This same Committee recognizes that a tax reduction in the magnitude contemplated will add temporarily to otherwise existing deficit. They state that they "believe, however, that additional income flowing from the tax cut will bring the budget into balance significantly sooner than if there were no tax cut at all."

If I thought the deficit which will be caused by the reduction of these taxes would be anything other than temporary, I would vote against the bill. I am now convinced otherwise, and I shall vote for the bill.

Mr. Chairman, all of us who represent districts throughout the United States have the natural tendency of determining how particular legislation will affect our own State and district. I am no exception.

This bill will place in Indiana scores of millions of dollars in the hands of the consumer. This is going to mean that more people will be employed, that they will be able to purchase more goods, and that our manufacturers will be able to produce more products.

It means something else to Indiana. We are burdened with high State and local taxes. It is estimated that because of this increased spending in Indiana, the Indiana tax revenues will increase by \$64 million annually. Mr. Speaker, this means a lot to my people.

Yes, this is perhaps the most important piece of legislation upon which I will be able to vote since my service began in the U.S. Congress. The decision to cast an "aye" vote did not come quickly. It came only after long and careful thought and study. It came only after I had been fully convinced that the stimulus to our economy will be such that we will eventually be able to balance our budget. It came only after reaffirming a long-standing conviction that this country should operate under a balanced budget except in the most extraordinary cases. My decision was made with the belief and conviction that this tax cut is necessary if the United States is to remain competitive with the rest of the world, if we are to put to work the 10,000 men and women who are added to the employment forces of the United States daily, and if we are to make the most of our productive capacity.

Mr. Chairman, I urge the passage of this bill.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Iowa [Mr. SMITH].

(Mr. SMITH of Iowa asked and was given permission to revise and extend his remarks.)

Mr. SMITH of Iowa. Mr. Chairman, we have before us a proposal to cut taxes on borrowed money. Everyone would like to see it cost less for the goods and services we want from Government. Since World War II we have paid more in taxes than the goods and services have cost but we have had an average deficit of \$2 billion because interest charges on the World War II debt have run as high as \$8 billion per year. I am not referring to the interest paid on debt acquired prior to World War II or on debt acquired as a result of loans made wherein we recoup the interest cost.

During World War II, we increased the debt \$225 billion. That is three-fourths of the total debt we owe. We have never paid that debt. President Roosevelt sought increased taxes during the war when there were too few goods available for the money available anyway. Congress refused an adequate bill and even postponed payments to the social security fund.

After the war, the 80th Congress enacted a tax cut and overrode President Truman's veto of that bill. His veto message included the following statements:

First, the bill would reduce Government revenues to such an extent as to make likely a deficit in Government finances, at a time when responsible conduct of the financial affairs of this Nation requires a substantial surplus in order to reduce our large public debt and to be reasonably prepared against contingencies.

Second, the bill would greatly increase the danger of further inflation, by adding billions of dollars of purchasing power at a time when demand already exceeds supply at many strategic points in the economy, and when Government expenditures are necessarily rising.

The estimates of Government expenditures for the fiscal year 1949 which I submitted to the Congress in January totaled \$39.7 billion. Receipts were estimated at \$44.5 billion, leaving a surplus of \$4.8 billion for debt retirement and contingencies.

It has since become apparent that despite the most stringent efforts toward economy, there will be several important increases in expenditures above the January estimates. Legislation has been enacted increasing payments to veterans. Larger amounts will be required for assistance to certain foreign countries. Legislation to increase the salaries of Federal employees is being considered. It has been necessary to recommend substantial additional appropriations to the Congress to bring our Armed Forces to a proper strength.

Altogether these increases, after taking due account of appropriation actions by the Congress to date and of the additional tax refunds which would occur under this bill, involve additional expenditures for the fiscal year 1949 of at least \$3.5 billion above the

January estimates. In the fiscal year 1950, these additional programs would increase expenditures by another \$2 billion, or by a total of \$5.5 billion. It is clear that, if this bill which reduces taxes by \$5 billion were to become law, there would in fact be a deficit in the fiscal year 1949 even under the more optimistic estimates of revenue used by the congressional committees.

The Congress proposes to extricate itself from this situation by charging \$3 billion of 1949 expenditures under the European recovery program against the 1948 revenues. This might avoid a deficit in 1949. But the facts cannot be obscured by the fiscal sleight-of-hand by which a prospective deficit in 1949 is made to appear as a surplus. Actually the surplus available for debt retirement for the 2-year 1948 and 1949 would not be affected in the slightest by such a shift in accounting.

The public debt is \$253 billion. I repeat what I have so often said before—if we do not reduce the public debt by substantial amounts during a prosperous period such as the present, there is little prospect that it will ever be materially reduced.

[P. 17186]

Every prediction made by President Truman in those remarks has proved to be true, at a time when we had too few goods for the money available, we should have paid some on the debt and that tax bill of the 80th Congress has proved to be the most irresponsible fiscal action ever taken in the history of this country. We not only have not paid on the World War II debt but also must now pay more to cover the harm caused by that bungle by the 80th Congress.

Although rates are less than during World War II, the cost of defense is higher. Higher individual incomes and gradually increasing incomes can permit higher payments at the same rates if we ever let income catch up with expenditures. It is said the gross national product will not increase without the tax cut but the gross national product has increased 150 percent more in the past 15 years than it increased in the previous 150 years. If we must sell bonds to finance the tax reduction, we will absorb the finances that it is said we need to have spent for goods to help increase the gross national product.

During the war, one of the reasons people were urged to buy bonds was to absorb money so it would not be spent for goods that really were not available. That economic theory would indicate that having to finance this tax reduction with bonds would not leave a sizable net increase available to purchase new goods to create jobs.

Our principal job problem is one of finding jobs for unskilled workers. If each of us cut tax payments \$1 per week on borrowed money, we will buy goods

and services that are mostly furnished by skilled workers. To get unskilled workers jobs we need loans for college students and training of unskilled workers. I think those will be fooled who think that pump priming in the private sector will solve the unskilled labor problem. For this reason, I do not see how a tax reduction bill, as desirable as it may be in some respects, will bring back as much revenue as would be lost. This would mean increased debt. It seems to me that in fact it will be hard to get over this hump until we either have a lull in the cold war and reduction in expenditures or have some surpluses to offset deficits. We cannot so easily avoid the problem created by not paying enough taxes in the 1940's.

Regardless of total revenue effects, we do need tax reform and a simpler tax law; but, this bill contains little good reform and makes tax returns even more complicated. If this bill passes, it will be almost necessary for a taxpayer to study higher mathematics to know the consequences of his business activities.

I think the investment credit tax cut helped. I voted for it and I am glad it has helped; but, it tied tax reductions to job making investments. Instead of this approach and direction, some of what appears to be reform in this bill will actually result in a more inequitable distribution of the tax burden.

I would like to vote for a tax cut but I do not see how it can be done yet except on borrowed money.

In spite of the advantages that may flow from tax cuts under certain circumstances, I do not believe the advantages that would flow from this bill at this time would exceed the long-term disadvantages of a deliberate increase in the public debt.

Mr. MILLS. Mr. Chairman, I yield to the gentleman from Oklahoma [Mr. EDMONDSON] such time as he may require.

(Mr. EDMONDSON asked and was given permission to revise and extend his remarks.)

Mr. EDMONDSON. Mr. Chairman, I rise in support of this much needed bill, and likewise in support of the position on fiscal responsibility being asserted by the majority of the Committee on Ways and Means.

I thoroughly agree with the proposition that the motion to recommit, as explained thus far, would constitute a delegation of legislative power to the President in the most vital area of our responsibility.

While this bill is not perfect, it represents progress on many vital fronts and should substantially benefit every Amer-

ican taxpayer as well as the private sector of our economy.

I hope and trust the motion to recommit will be defeated and the bill will be approved by an overwhelming, bipartisan majority.

Mr. MILLS. Mr. Chairman, I yield such time as he may require to the gentleman from Texas [Mr. WRIGHT].

(Mr. WRIGHT asked and was given permission to revise and extend his remarks.)

[Mr. WRIGHT addressed the Committee. His remarks will appear hereafter in the Appendix.]

Mr. MILLS. Mr. Chairman, I yield 3 minutes to the gentleman from Kentucky [Mr. CHELF].

Mr. CHELF. Mr. Chairman, I had not intended to make any remarks on this tax cut bill today, chiefly because I am not a tax expert. Most of us here in the House more or less depend on the sage advice of that distinguished gentleman, that great American, the chairman of the Ways and Means Committee, the Honorable WILBUR MILLS.

Mr. Chairman, several Members in debate yesterday stated that the House ought to forge a pact with the President in order to limit our spending in fiscal year 1965 to \$97 billion. Whom are we kidding? Any sort of suggestion that we pass legislation in order to prevent the President from requesting any sum over \$97 billion is offstroke, because Congress authorizes expenditures and then appropriates the funds. It is our baby—and rightfully belongs to us in the Congress—not to the President. It seems to me that we are passing the buck.

I just returned from my district and I can tell you the people, as well as businessmen, want a tax cut.

During the recent debate on the authorization for foreign aid, I said:

We are spending money we haven't got on people we don't know to impress those who hate our insides.

If this bill passes today, I would paraphrase my statement and say: "We would be saving money we have; for people we know; to help those who need it most."

I shall not vote for any motion to recommit with instructions that would specifically require the President to limit expenditures at any amount. We are the duly elected Representatives of the people and, under the Constitution of the United States, we not only have the right, but it is our duty—to tell the President what he will be permitted to spend. How are we going to do it? By enacting into law—sane, sound, courageous au-

thorization bills and then appropriate the necessary money therefor.

I urge every Member of this House not to reject this baby that was fathered by our forebearers and adopted by us as our very own the day we were first elected to Congress. Frugality in Government is our job. Let us do that job—meet our responsibility.

When my family overspends—I simply cut their water off. We can do this in Government by cutting down on all future authorizations and appropriations. It is that simple.

Mr. BOGGS. Mr. Chairman, I yield 5 minutes to the gentleman from Oklahoma [Mr. STEED].

(Mr. STEED asked and was given permission to revise and extend his remarks.)

Mr. STEED. Mr. Chairman, our Nation's tax structure is a vast, complex assemblage of individual laws, revisions, supplements, court decisions, as well as regulations and rulings issued by the Treasury Department and the Internal Revenue Service. For a long time, there has been great need for a thorough review of the Federal Government's tax structure; and it is for this reason, that I welcome the President's recommendation that our tax structure be carefully examined in light of today's needs.

I am glad that this overhaul has been commenced. The House Ways and Means Committee is to be commended for the long hard hours that it has put in in bringing forth H.R. 8363, "the Revenue Act of 1963." This proposal is a major step toward the accomplishment of a sound and workable tax system. I believe on balance this bill will go a long way toward spurring our economy and providing the growth and expansion which is the desire of everyone concerned with the welfare of this Nation. I expect to vote for it.

Mr. Chairman, as will be recalled, the President, in his recommendations to Congress made earlier this year, sought to have written into the law four specific provisions which would have: First, reduced depletion on oil and gas properties by requiring that losses in any year on mineral properties to be carried forward to subsequent years solely for the purpose of reducing a taxpayer's net income on such properties which in turn could limit the depletion deduction up to 50 percent of what it is now under existing law for these various mineral properties; second, eliminated the provision which was enacted in 1954 which permits the taxpayer to aggregate oil and gas de-

[P. 17187]

posits located in the same operating unit

for the purpose of computing percentage depletion and to also require that taxpayers break up existing combinations and compute depletion separately for each separate deposit or lease; third, taxed the gain on the sale of a mineral property as ordinary income rather than at capital gain rates in an amount equal to development costs and depletion up to the cost basis deducted after December 31, 1963; and fourth, revised the tax treatment of income earned abroad.

Each of these proposals would have had an adverse impact on the oil and gas producing industry. I am pleased to note that the House Ways and Means Committee rejected three of the four proposals recommended by the President; and I am hopeful that as this tax bill proceeds through Congress, these provisions will continue to be rejected.

Unfortunately, the House Ways and Means Committee saw fit to accept the President's proposal to eliminate the provision from our tax laws which authorizes taxpayers to aggregate oil and gas properties within an "operating unit" for the purpose of computing depletion. Elimination of this provision, which was passed into our tax laws in 1954 according to the Treasury Department, will increase the petroleum producing industry's taxload by approximately \$40 million each year. This additional tax burden will be placed on an industry which is already suffering from decreased drilling activity, declining employment, and excessive imports of foreign oil.

In my own State of Oklahoma where the State's first commercial well was drilled near the city of Bartlesville in 1891, we have seen the oil and gas industry flourish and languish. We have seen it build cities, attract other industry, contribute to the general welfare, and provide its full share of taxes to the community, the State, and the Nation.

Within recent years the industry in Oklahoma and throughout the Nation has been in depression. This condition continues at this time. The President's revision of rules governing import controls should be helpful although it is too early to judge the extent.

The explorer producer is continuing to have a difficult time. His costs are up; the price he receives for this production is down.

The producer has been fighting for his very economic existence. Many have not made it.

In my district, where there are many hundreds of operators, producing properties have been sold, many have been abandoned, and some former producers have simply quit what appears to them

to be a losing battle. This is not a pretty picture.

So you can see why I am concerned about adding an additional tax burden of \$40 million each year to the petroleum producing industry.

I am indeed hopeful that when this legislation comes before the Senate Finance Committee it will take a long hard look at this proposal which would take away from the petroleum producing industry a much-needed provision which was written into our tax laws in 1954 after thorough study and consideration by Congress.

If you will permit me, I would like to develop something of the background record surrounding the adoption of this provision which permits taxpayers to aggregate mineral properties for the purpose of computing depletion.

President Kennedy in his tax message to Congress declared:

We must continue to foster the efficient development of our mineral industries which have contributed so heavily to the economic progress of this Nation.

The President in his message also stated:

Unintended defects have arisen in the application of the special tax privileges that Congress has granted to mineral industries, and correction of these defects is required if the existing tax provisions are to operate in a consistent and equitable fashion.

The President then recommended four specific changes in the tax law as applying to natural resources. One of these changes was in the area of "grouping of properties." Presumably, the present law covering this matter is considered by the President and the Treasury Department to be an "unintended defect." A look at the record proves conclusively that this provision is not an unintended defect. The record shows in fact that Congress looked long and hard at this provision in 1954 as well as in 1958.

In adopting the 1954 code, the Senate declared in its report:

**D. DEFINITION OF MINERAL PROPERTY
(SEC. 614)**

(1) HOUSE CHANGES ACCEPTED BY COMMITTEE

Although depletion allowances are computed with respect to mineral properties, present law does not define a "property." In general administrative regulations state that each separate interest owned by the taxpayer in each mineral deposit in each separate tract or parcel of land constitutes a property. From the standpoint of both taxpayers and administrators, however, this division of properties creates difficulties because, in some instances, it requires the preparation of multiple depletion schedules and computations where a single computation would serve the same purpose.

The House bill clarifies the situation with respect to depletable properties by adding a

statutory definition of "the property." This provision adopts as the general rule the same definition relating to separate interests now established by regulations. In addition, however, the new provision permits a taxpayer to elect for purposes of percentage depletion to treat as one property an aggregation of his separate mineral interests which constitute all or part of an operating unit.

In its analysis which accompanied the Revenue Act of 1954, the staff of the Joint Committee on Internal Revenue Taxation stated:

Although depletion allowances are computed with respect to mineral properties, present law does not define a "property." In general, administrative regulations state that each separate interest owned by the taxpayer in each mineral deposit in each separate tract or parcel of land constitutes a property.

Thus when Congress in 1954 adopted the definition of property as "each separate interest owned by the taxpayer in each mineral deposit in each separate tract or parcel of land," it became necessary to further provide for the combining of mineral interests for the purpose of computing percentage depletion in order to avoid unrealistic results.

The record further shows the following:

The Technical Amendments Act of 1958 (H.R. 8381) was signed into law on September 2, 1958, and was an act: "to amend the Internal Revenue Code of 1954 to correct unintended benefits and hardships and to make technical amendments."

Senate Report No. 1983, which accompanied this bill, states:

As indicated in the report of the House, H.R. 8381 represents a major step in the elimination of substantive unintended benefits and hardships in the existing income, estate, and gift-tax provisions, and also removes any technical errors and ambiguities in the tax statutes.

The Senate report further states:

The 1954 Code (sec. 614) defines property for purposes of computing the percentage and cost depletion allowances in the case of mineral resources. This section permits a taxpayer owning interests in mineral resources to make one aggregation of part or all of his operating mineral interests within an operating unit, and permits him to treat this aggregation as one property.

* * * * *

The House report indicates that the rule provided by the 1954 Code was intended to liberalize the provisions of the 1939 Code with respect to the definition of property. Some taxpayers have contended, however, that the 1954 Code section has deprived them of rights they previously had under the 1939 law, regulations, court decisions, or practices. Since, under the 1954 Code, there was no intention to remove any rights which taxpayers had, the House bill restored such rights as taxpayers had under the 1939 Code.

The House bill accomplished this by adding a new subsection to the section dealing with the definition of property to the effect that a taxpayer could elect to treat any property as if the present 1954 Code definition had not been enacted, and as if the 1939 Code rules still applied. Thus, with respect to 1954 and subsequent years, a taxpayer was given two choices: he could apply the 1954 Code rules in determining what constituted a property within an operating unit, or he could apply the 1939 Code rules.

Your committee is in agreement with the House that the action taken by Congress in 1954 was intended to liberalize, rather than restrict, the 1939 Code rules with respect to the definition of property.

* * * * *

In the case of oil and gas, the rules followed under the 1939 Code were more explicit, and there, therefore, does not seem to be the need for immediate action in redefining the property for purposes of oil and gas depletion. As a result in the case of oil and gas your committee has accepted the House provision permitting taxpayers for 1954 and subsequent years to choose between the 1954 Code rules and the 1939 Code rules.

The Conference Report No. 2632 which accompanied H.R. 8381—the Technical Amendments Act of 1958, states:

Amendment No. 94: Section 32 of the House bill amended section 614 of the 1954 code to provide, in effect, that any taxpayer could treat any mineral property as if section 614 of the 1954 code had not been enacted and as if the 1939 code rules pertaining to the definition of property continued [P. 17188]

to apply. Senate amendment 94 limits the application of section 32 of the House bill to operating mineral interests in the case of oil and gas wells.

The House agreed to the Senate amendment. Thus it can be seen that the action of the House and Senate in this area was taken after full study and consideration.

This action was taken because, according to the Senate report—

Since, under the 1954 code, there was no intention to remove any rights which taxpayers had, the House bill restored such rights as taxpayers had under the 1939 code.

Thus it can be readily seen that Congress both intended in 1954 and in 1958 to spell out the definition of property for computing percentage depletion and clearly intended to authorize oil and gas producers to "group" their mineral interests to form a mineral property. This is the very thing that the President and the Treasury Department states to be an unintended defect. The record as noted above is clear that Congress not only intended to act as it did in 1954, but also after reviewing the situation in 1958, Congress clearly intended to not only retain the "property provision" adopted in 1954 in the case of oil and

gas, but also clearly intended to restore certain rights existing prior to 1954 but which were denied taxpayers in 1954.

Further, when Dr. Dan Troup Smith, Deputy to the Secretary of the Treasury, and who testified on behalf of the Treasury Department during Senate hearings on the Technical Amendments Act of 1958, declared on page 32 of the Senate hearings as follows:

As the report of the Ways and Means Committee has indicated, it is not feasible to provide detailed revenue estimates for this bill. While it is not a revenue-raising measure, as such, the general effect of the bill will be to strengthen the revenue system. An important aspect of this legislation is its preventive function in blocking the growth and spread of known tax-avoidance devices which, even where they do not result in substantial revenue losses at present, threaten more widespread abuse and loss of tax receipts in the future.

More than half of the 82 provisions of H.R. 8381 represent technical adjustments. Of the remaining more substantive provisions of the bill, some two-thirds close loopholes or foreclose unintended benefits in the present law. The balance of its provisions relate generally to the removal of hardships.

If one would search the record of this hearing on pages 32 and 33, it would be seen that the property provision is not referred to as an unintended benefit but rather on page 32 of this hearing, Dr. Smith states:

Provisions of the bill which remove hardships or otherwise benefit taxpayers are as follows:

"Section 32 provides that the taxpayer may choose between the 1954 Code and the 1939 Code rules for defining a mining property for purposes of the percentage depletion allowances applicable to coal and other mineral resources."

After study of the above-outlined history of this so-called grouping of properties, it is folly to consider that this provision should be eliminated because it is an unintended defect in the law. It also would be noted that contrary to the assertion by the Treasury Department, taxpayers are not free under this provision to combine their mineral properties in any manner they may find beneficial. The law currently limits permissible combinations of properties to those located in the same operating unit which may include only its properties which may conveniently and economically be operated together as a single unit.

When Congress authorized the combining of mineral interests into one property within an operating unit for the purpose of computing depletion, it did so for a very practical reason. This action was taken in the main to simplify the depletion computation and to eliminate the difficulties which arose due to

the necessity of preparing multiple depletion schedules and computations where a single aggregated property computation would be more logical from both the operating and property concept.

An operating unit in the petroleum industry includes those mineral interests which are operated together for the purpose of producing, in the most efficient manner, the oil and gas contained in these various mineral interests. The size of an operating unit depends upon the organization and operating methods of each individual producer. Present law provides that a field operating unit may include only those properties which may conveniently and economically be operated as a single unit.

Since adoption of the statutory definition of "mineral properties," oil and gas producers have sought to aggregate their properties for the purpose of computing percentage depletion in a manner which met the requirements of the Internal Revenue Code and the Treasury regulations. It would thus be extremely onerous to require oil and gas producers now to breakup these aggregations which they elected to be bound by and start all over again.

The unscrambling that would be necessary under this proposal, would be extremely difficult, time consuming, and expensive both for the taxpayer and the Internal Revenue Service.

In 1954, the right to aggregate was adopted as a matter of principle to apply to all resource industries. If in principle it is right and proper, it should be applied uniformly and not now be withdrawn from the petroleum industry.

The right to aggregate properties as provided under present law not only serves to simplify depletion computation and administration of the tax laws but also provides additional flexibility to the taxpayer in his tax and operational planning. To deny this treatment to petroleum permitting it to remain in effect for other minerals segregates and sets apart petroleum from other natural resource industries. Such action would be discriminatory in that it would deny to the petroleum industry the benefit of the aggregation principle while recognizing the propriety of such tax treatment for other natural resource industries. Such discrimination in the application of basic tax principles would be extremely unwise and would constitute an unfortunate precedent which could cause much difficulty in the future in formulating and providing fair and equitable tax treatment among natural resource industries.

For these reasons, the President's and Treasury's recommendation with

respect to grouping of properties should be rejected by Congress.

Mr. MILLS. Mr. Chairman, I yield 1 minute to the gentleman from West Virginia [Mr. STAGGERS].

(Mr. STAGGERS asked and was given permission to revise and extend his remarks.)

Mr. STAGGERS. Mr. Chairman, I rise only to say that I think most of the argument has certainly been said that can be said on both sides. However, I want to remind the Congress that the \$11 billion which we are planning on spending through savings is not to be spent on some dubious scheme in some faraway place or land of the world. But it will go to the men and women that we represent, to create jobs and help business to clothe and feed the children of those selfsame men and women.

Everyone talks about high taxes, and now is our opportunity, as representatives of the people, the Nation, to do something about them.

I regard this tax reduction as an investment in the future of the United States, one that will help to build the Nation into a happier, stronger, and more prosperous land.

Mr. MILLS. Mr. Chairman, I yield 2 minutes to the gentleman from Pennsylvania [Mr. MOORHEAD].

(Mr. MOORHEAD asked and was given permission to revise and extend his remarks.)

Mr. MOORHEAD. Mr. Chairman, why is tax reduction important now?

Mr. Chairman, today the war and the postwar babies are reaching maturity—will they be a boon or bane to our economy?

Will they be consumers or unemployment compensation claimants?

Will they add to the economy—as consumers creating demand and as producers satisfying that demand—or will they be a drag on the economy by joining the army of the unemployed whose bare existence depends on taxes collected from the producers in our economy?

Not many years ago the homebuilders and the appliance manufacturers were rubbing their hands expectantly as they looked forward eagerly to the day when these young men and women would form families and buy houses and stoves and refrigerators and television sets and furniture and the multitude of things needed by a new family setting up house-keeping.

Now these same people are wringing their hands in woe.

Where the investment letters once pointed with optimism, now they frequently view the same phenomenon with alarm.

Back in 1948, the investment letters which I received were unanimously optimistic, basing their favorable opinion of the future of the economy on the population explosion. On April 30, 1948, U.S. News & World Report, in an article entitled "Twenty-five Good Years for Business," said confidently:

Population by 1960 is expected to be about 14 million greater than the present. That will be like adding to the United States a nation of consumers and producers as large as Canada. Official appraisers—

It concluded—
see a rosy future.

In May of this year in an article on the population boom in the same magazine, it was said:

The businessman, as he looks at the late sixties, should, I think, count on a market featured by increased family formation.

Yet, in June of this year, this same magazine looked at the other side of the coin of the population boom in an article entitled, "Jobs—Key to National Unrest?" and pointed out that "among persons under aged 20, unemployment now is highest since records have been kept." They also viewed with alarm the fact that the family formation—20 to 24 age group—declined by 335,000, whereas in the 1960's, this same age group will increase by 4 million, an average of 400,000 a year. The result, as this article views it, is: "rising unrest if jobs are not open for all these young people."

Which of these articles is right? Will the population boom be a bane or a boon to our economy? Mr. Chairman, if—and I repeat, if—we can look at these maturing individuals as consumers we need have no fear for our economic future. They are reaching the age of family formation when their needs and demands are almost unlimited. The newly formed family needs furniture and appliances and housing. In the decade of the sixties, the number of these young people with almost unlimited demands will increase by 4 million instead of declining by 335,000, the rate which took place between 1950 and 1960.

If these young people are regularly employed, their demands will provide an economic base from which this country will achieve new heights of prosperity.

Aye, there is the rub: Are they to be the employed consumers adding to our economy, or will we look at them as millions of new job seekers flowing like a torrent into a labor market which is already saturated?

The unemployed do not marry, do not form families, and do not have the de-

mands on which a new economic base can be erected. The anticipated boom in housing and consumer goods has been awaited as a strong economic stimulus, but there is nothing automatic about the boom. Instead of a boost to the economy, the population bulge can represent a further aggravation of the unemployment problem as the labor force growth accelerates without new jobs being created.

Never before has the U.S. Congress been confronted with such a clear-cut economic choice. We can predict exactly when this population bulge will hit the market. We know that this can be a boon or a bane to our national economy. We know that this can lead us to accelerating new heights of prosperity or drop us into new depths of recession.

The actions of the 88th Congress will determine which way we go. If we act clearly and forthrightly without if's, and's, and but's, by passing the tax reduction bill, millions of consumers and businessmen can plan confidently and optimistically for the future. Then the millions of young employed producing and consuming citizens will be a long-term boon to our economy. If we do not they, as the unemployed, will be the bane of our existence.

Boon or bane. Unequivocal removal of the wartime tax straitjacket on our economy will make the difference.

We must act, and the time to act is now.

Mr. MILLS. Mr. Chairman, I yield 5 minutes to the distinguished Speaker of the House, the gentleman from Massachusetts [Mr. McCORMACK].

Mr. McCORMACK. Mr. Chairman, this debate has been conducted on a very high plane in accordance with the great traditions of this body, and I want to congratulate my colleagues on both sides of the aisle for the fine character of debate that has been engaged in. However, while that is so it is very strange to me to note the position taken by my Republican friends. To me it seems to be a position of blind opposition that has been consistent with every measure since President Kennedy assumed office, blind opposition on the part of the great majority of the Republican Party—not all, but the great majority.

It seems to me that this kind of a policy is going to be appreciated by the people and is appreciated and will be in the months that lie ahead. However, that is a responsibility of the Republican Party and a responsibility which we shall take advantage of at the right time.

The position they have placed themselves in is this: We favor a tax cut,

but we only favor it under certain conditions. Some of their outstanding Members have said that if their motion to recommit is not adopted they will vote against the bill. To me that seems to be a very strange and inconsistent position to take. If I am in favor of a bill but I offer an amendment, and if the amendment is not adopted, I am going to vote for the bill.

Furthermore, my Republican friends by their motion abdicate the responsibility of the Congress if their amendment should be incorporated into the bill and becomes law in connection with the field of appropriations, and abdicates it to the President of the United States. I am opposed to abdicating the responsibility of the Congress to any President, whether Democrat or Republican.

I also never thought I would see the day when our friends on the Republican side would quote Lord Keynes as an authority. I never thought I would see the day when our friends on the other side of the aisle would quote ex-President Truman as an authority. I never thought I would see the day when they would claim "a gratuitous handout" of billions of dollars to big business, as they have in their minority report, or hear them complain about giving tax relief to the "very rich." This they have done. This bill is designed to eliminate the wartime taxes in relation to corporations and individuals and through the reduction and relief to increase our national economy in order to help solve the unemployment situation and to expand our gross national product in order to meet the problems that confront our country.

I have always felt personally that personal and corporate taxes were high, but there was nothing I could do about it while the war was on or the results of the war were in force.

If we are going to reduce taxes permanently to corporations and individuals, this is the time to do it. If the Republican substitute is adopted it could divert or defeat the very purposes of this bill. As a matter of fact, it could result in a tax increase bill, which will probably be explained a little later on. So that in addition to voting against tax reduction a Member might find himself by voting for the Republican motion to recommit to be voting for a tax increase bill if the motion to recommit should be adopted.

I have studied and read the report of the Democratic majority and the minority report filed by the Republican Members. The bill as reported out by the committee is a constructive and sound contribution toward the stability

of our country and toward a growing gross national product and meeting the problems that exist in the country at the present time.

I might say with all due respect to my friend from Wisconsin [Mr. BYRNES] and no personal reference in the least, that as between JOHN BYRNES, of Wisconsin, and WILBUR MILLS, of Arkansas, I prefer to follow the leadership of WILBUR MILLS.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the minority leader, the gentleman from Indiana [Mr. HALLECK].

Mr. HALLECK. Mr. Chairman, I agree with the Speaker that by and large this debate has proceeded on a very high plane. As a rather longtime Member of this body, that is something that I am happy about, as he is.

I must say that as I listened to some of the speakers, and particularly those today, who have hit the sawdust trail about spending and new authorizations and cutting down on appropriations, I just hope that in the weeks and months to come, if we have to stay around here that long, they will not forget some of the things they have said here today. And I can look some of them right smack in the eye, and I will be watching how

The Speaker refers to what he calls the inconsistent position of the Republicans. I have been here going on 30 years. It has been said before, and it ought to be said again and again, that the only meaningful tax reductions that have been given to the people of this country in my time were given to them by Republican Congresses, the 80th and 83d. We are not new-found friends of tax cuts. But I want to point out to you in connection with this matter of con-

[P. 17190]

sistency that in the 80th Congress we passed the first tax reduction under the leadership of Harold Knutsen, then chairman of the Ways and Means Committee, and it was vetoed by President Truman. He was not for it. We could not override the veto. Then we passed another one. Again it was vetoed. And lo and behold, who voted against tax reduction, to sustain the veto? None other than the then Representative from Massachusetts, Mr. Kennedy.

Then we passed a third tax reduction, and it again was vetoed. That time we overrode the veto. But who voted to sustain the veto? Again, Representative Kennedy from Massachusetts.

I almost hesitate to inquire of the Speaker, and I did not look up his record on sustaining that veto, but I would almost bet a nickel to a penny with a hole

bored in it that he voted likewise to sustain the veto. I voted to override, and we finally prevailed.

In the 83d Congress we came up with a Republican Congress, not a big majority, but we finally did get through the session and adjourned with a good record of accomplishment, and we had another tax reduction bill. When it got to the other body—what happened, on the part of the then Senator from Massachusetts? He said he was not privileged to vote because he had a pair with the Senator from Alabama, Mr. HILL, and Mr. HILL, if he had been present would have voted "yea." Senator Kennedy said he would have voted "no." So he voted on a live pair against that tax reduction bill.

Now then to get down to the issue at hand and again having regard to fiscal responsibility and what we are here trying to do, those tax reduction bills that were given to the people by Republican Congresses were given to them after we had cut the costs of Government, balanced the budget and had some money to pay on the national debt. That is the only way you can have a meaningful tax reduction. You cannot have it by giving the taxpayer a little money to put in one pocket and then take it out of his other pocket through the worst kind of a tax that there is, and that is the pickpocket called inflation.

In this action here you are getting the cart before the horse. We have not passed on most of the appropriation bills. They are yet to come. Somebody says this motion to recommit is a phony. I agree with whoever spoke here a little bit ago who said, if there is anything phony, it is this idea that you can have a tax reduction without some control over Federal spending. All we hear is fancy words and phrases. Instead of fancy words and rhetoric I want to see some action.

We hear talk about the help we are going to get from downtown. You cut the Post Office bill a little bit and Postmaster General Day says he is not going to deliver the mail.

You cut the national defense a little bit, and I heard two gentlemen, the gentleman from Texas [Mr. MAHON] and the gentleman from Michigan [Mr. FORD] refer favorably to the cut. But Mr. McNamara says that we are leaving the country defenseless.

Some of us voted to cut \$585 million out of the foreign aid bill. The gentleman from Kentucky [Mr. CHELF] spoke here—very impassioned and I always like to hear him—many times he votes right according to my liking. So we cut \$585 million out of the foreign aid bill. I

voted to cut it. And what did the President say about me? He did not mention my name, but he might just as well have named me in his statement. His words were that the vote to cut foreign aid was "shocking and thoughtless; short-sighted, irresponsible, and dangerously partisan."

This motion to recommit does not represent any abdication. That is a smoke-screen that a lot of people who ought to know better are trying to hide behind. All this motion represents is a device that I say we should have started using a long time ago to try to put some restraints on spending.

Some Members have referred to what they are going to do with respect to the next debt limit bill. I am not voting to increase the debt limit. You will never get this over unless you really want to bear down. No, this motion to recommit should prevail. It is obvious, I am afraid, that there have been enough arms twisted and enough heat put on and enough other things done that you are probably going to run over us. I am going to vote for the motion to recommit and if it does not prevail, then I will vote against the bill. I say that is a consistent position. I love you, Mr. Speaker, and respect and admire you, but when you said that such a position is inconsistent, you could not have been any more wrong if you really tried to be, and I know that you would not try. Actually, this motion would offer some assurance that the executive branch is under some restraint and it is a restraint on us too—a commitment on our part as well as a warning downtown—if you want this tax reduction make it honest, make it meaningful, and make it real.

Mr. Chairman, let us take this first step and then back it up with some real cuts in Federal spending. Then, my friends, you will have given to the people of this country something that will really help.

So it is not going to bother me to vote against this bill, if the motion to recommit fails. The Speaker says he is going to remind the folks of the country at the proper time. I would remind some of you who think tax cutting is such a great political advantage that for the 80th Congress tax reduction we got beat; for the 83d Congress tax reduction we got beat. Now, you had better take a little look at history, because you are heading for trouble.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield to the gentleman from Washington [Mr. STINSON].

(Mr. STINSON asked and was given permission to revise and extend his remarks.)

Mr. STINSON. Mr. Chairman, I am in favor of a tax cut and intend to vote for the tax cut provided that we are absolutely assured that there will be a curtailment on Federal spending. Without the positive assurance that Federal expenditures will be held down, I cannot support the bill.

We all realize that the Federal Treasury will have to borrow the money to grant this tax cut. We will further mortgage the future of our children and grandchildren if the Federal Government continues to operate at a deficit. Perhaps I shall be accused of believing in the Puritan ethic by making this statement, but I believe it is immoral for our generation to spend money that future generations will have to repay.

Now I believe that a tax cut could have some effect on stimulating our economy. I have long believed that our people and our industries and businesses are overtaxed. I also have maintained that our Treasury is overspent.

By placing an upper limit on expenditures, we can start to slow down the drift toward financial chaos and return to a policy of fiscal responsibility.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield myself 20 minutes.

Mr. Chairman, first I would say that I am not certain as to the purport of the closing phrase of the Speaker in his remarks, but I will say to him and I will say to the House that I do not consider this nor do I consider any other matters coming before the Committee on Ways and Means as matters of contest between the chairman of that committee the gentleman from Arkansas [Mr. MILLS], for whom I have the greatest respect, and myself. Nor is it any popularity contest. I think the chairman of the committee will admit that during the 8 long months of proceedings before that committee, I and the Republican members cooperated with him to the fullest degree.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the distinguished chairman.

Mr. MILLS. I had expected a little later on in the debate to thank the gentleman from Wisconsin and the other members of the committee on his side as well as those on my side of the committee for cooperating, each and every one of them, and for the diligence with which they applied themselves to this bill and the contribution that they made to the writing of this tax bill.

Mr. BYRNES of Wisconsin. Thank you.

Let me make a few things clear. I favor tax reduction and the Republican members of the Committee on Ways and

Means favor tax reduction, and I think the great majority of the Members on the Republican side of this House favor tax reduction. I have no disagreement with the chairman that we need relief from the high tax rates nor do I have any disagreement with the chairman that we should depend more than we do today on the private sector of our economy to keep that economy moving.

That has been the philosophy of the Republicans all along. The issue in the 1960 Presidential election was whether we should put greater reliance on the public sector, which was the position taken then by the now President of the United States, or whether we should, as Republicans said, place greater reliance on the private sector. That election was lost by a very narrow margin, but I agree

[P. 17191]

today with the chairman that we should place greater reliance on the private sector. Republicans should not have to re-emphasize this basic belief, because we have demonstrated our adherence to it time and time again.

The chairman has talked about the need for relief from the wartime tax rates. In the first instance, it was the Republicans who gave relief from the wartime rates, over the opposition of the other side. As my minority leader pointed out, the Republicans finally were able to provide relief in 1948 from the excessively high World War II rates, but only after three vetoes by a Democratic President. And Republicans again provided some relief from the high Korean war taxes in 1954. I will comment a little later on what the situation was then, which is entirely different from the situation today. But as to giving relief from wartime taxes, we had to do it over the opposition of the other side.

Frankly, I am pleased that there is now apparently a bipartisan recognition of the advisability and the desirability of tax reduction. I am glad to see that there has been a conversion of some to this cause and that they are willing now to place greater reliance on the private sector.

Listening to the gentleman from Louisiana [Mr. Boggs] today and to the chairman of the committee I wonder sometimes whether there has not been a little overconversion, however, if we are to take their word as to the benefits that are to flow from this \$11 billion tax reduction. And if it is going to be that good, I wonder why we do not go a step further and really get to the millenium by having a \$20 billion tax cut.

Of course there are going to be benefits from a tax reduction. I must insist,

however, for the record, Mr. Chairman, that we keep our enthusiasm within proper bounds. It will not be the cure-all for all of our problems as the gentleman from Louisiana [Mr. Boggs] and others have contended. Listening to the gentleman from Louisiana [Mr. Boggs] I was reminded of a speech that he made, as well as some of the speeches that the President made, a little over a year ago. I refer particularly to the speech of the gentleman from Louisiana [Mr. Boggs] on June 28 last year when he had before us the Trade Agreements Act. You probably remember it. Remember, he stated that the bill was going to increase consumer welfare, it was going to increase employment, it was going to accelerate economic growth, it was going to arrest the balance-of-payments problem, and it was going to end the drain on the gold. It has not accomplished a single one of those things as yet, and you know it. In some cases it may have compounded the problem.

I am still hopeful that it will produce some salutary results. Nonetheless they have just taken that same list and added a couple of more things that are going to be cured by this bill before us—juvenile delinquency and even civil rights.

Well, let us get down to some common-sense. This reduction can be helpful and I am for it under the proper fiscal conditions. But let me make it clear that it is not the cure-all for all of our present aggravated problems.

Let me take just one, structural unemployment which the President has spent so much time talking about, and claiming that this bill is going to cure it. The bill by itself is not going to produce full employment in spite of what the President has said, and the chairman knows it. Today the unemployment problem is concentrated among the unskilled groups. We had an expert witness before the Senate Labor Committee only last week, Professor Killingsworth, professor of labor at Michigan State University, who said in no uncertain terms that a tax cut would not materially reduce unemployment, that the basic problem rested elsewhere. But under proper circumstances, surely, a tax cut will provide a stimulus, will encourage investment and plant utilization. But let us not put all of our problem eggs in the tax cut basket, because if we do, we will just be fooling the American people.

Let me comment briefly on the bill itself as a package. All Members worked diligently on it. We tried to come up with as good a bill as we could. And I say to the Speaker it was not done on a partisan basis—and that has been confirmed by the chairman. It was done on

a bipartisan basis, up until the last few days.

When they had almost all the drafting completed and perfected, then they said, "Now we don't need your help any more, boys; we will put the steamroller to work." But up until then it was on a bipartisan basis. Now, if Republicans had wanted to kill that bill—and I put it to the chairman right now—if Republicans in the committee had wanted to kill that bill, we could have done so simply and easily. All we had to do was furnish the votes to keep some of the President's recommendations in the bill. If the bill as it is now before us mirrored some of those administration proposals it would not have a chance of passage in this House. I am not going to embarrass the chairman to comment on that statement. But the members of the committee know as well as I do if we had left in the 5-percent floor on deductions that the President proposed, the elimination of the sick pay exclusion, the taxation of employees on the premiums on group life insurance in excess of \$5,000, why this bill would not have a prayer in this House. That is what we could have done if we wanted to kill the tax bill. But we did not. We tried our best to make it a good bill from the standpoint of taxation.

Mr. Chairman, I am still not sure how well we succeeded. It does not simplify the tax law. I doubt, as a whole, if it eliminates much by way of inequities.

Some of my objections to the bill I would register briefly. I think the repeal of the dividend credit is a mistake. The repeal of the Long amendment is nothing more than a windfall for big business, and I do not care whether business likes it or not. We differ on our side a little bit. If labor wants something, the Democrats just jump through the hoop, but we do not jump through the hoop for any group in this country. As far as I am concerned the repeal of the Long amendment is nothing more than a handout of billions of dollars to the business community, which is not needed and is not justified. And, Mr. Chairman, if you want to find a nice little bonanza in the bill—and I hope the Senate will take a good look at it—it is the provision written into this bill for the gas pipelines.

I do not care where the chips fall. If there is something bad, I am going to be against it, whether it concerns business or not, because we are writing this for the United States of America for today and tomorrow, and for our children. We are not going to get any credit if we write a bill filled with inequities.

There is much to be desired as far as the rate changes are concerned. While it does reduce rates, the level of the step

progression has not been lessened or softened. This leaves a great burden on our great middle-income people. But in spite of all these things, because of the effort we all put in, I will support this bill, if the motion is adopted. I am going to insist on that "if" I do not think there is anything wrong with "if." The amendment we propose is the test of whether you can afford to have a tax reduction bill or not. If it is not adopted, I will not vote for the bill. But if it is adopted, I will vote for the bill.

Mr. Chairman, if we can establish the proper fiscal climate that is essential to meaningful tax reduction, I will vote for this bill.

This brings me to the crucial issue that confronts us. Can we vote an \$11 billion tax reduction without also considering spending and the deficit picture of the Government? I think there has been a lot of salutary debate during the last 2 days because we have finally brought about a lot of thinking on the relationship between what we spend and the taxes that we must assess against our people. I do not think we can divorce taxes from spending.

Mr. Chairman, there is only one reason for our high taxes today. It is our high spending.

The gentleman from Missouri pointed it out. Spending is out of control.

Mr. Chairman, during the last 2 years we have increased the annual level of expenditure by \$11 billion. It is proposed by the administration for this year and next year to increase the level by another \$9.5 billion. In 4 years there will be a total increase in the annual level of spending of over \$20 billion.

Is that the kind of a situation that is conducive to a tax reduction? I do not think it is. What about the public debt? In 1962 and 1963 the public debt was up \$17 billion. Another \$18 billion increase is forecast for this year and next year. This adds up an increase of \$35 billion in 4 years.

Either next month, or the month after, the chairman will be asking me to support an increase in the debt ceiling. From some of the remarks made today from high places on the other side I have serious question about what my answer is going to be, particularly if this House turns down its last chance to be responsible, to put some kind of a restraint on spending and the debt.

[P. 17192]

The chairman told us yesterday, as the Treasury had told us, that we will have a balanced budget in 1967 or 1968 as a result of this bill. With all due respect to my chairman and to the executive branch, that is a lot of hogwash. The ad-

ministration cannot demonstrate to the Congress how we will have the budget balanced in 1967 or 1968. It is the most fantastic wishful thinking ever engaged in by any administration in the history of our Nation.

I refer to you yesterday's CONGRESSIONAL RECORD, page A5996. I sent a letter to the Secretary of the Treasury 10 days ago and I said: You have been talking about balancing the budget in 1967 or 1968 if you get this tax reduction. What assumptions are you using? What estimates are you using? Let us see the figures. You must have some worksheets, you must have something on which you base it. Show us.

I got a letter yesterday saying in effect we do not have any figures, and we cannot give you any figures. We cannot make any estimates. All we can give you is vague generalities.

I hope that the Members will look at that letter and see how much assurance you can get that we are going to balance the budget in 1967 or 1968. It is wishful thinking. The only thing we do know, and I think we know it for a certainty, is, if we vote this \$11 billion tax reduction, and we do not hold the line on spending, we are inviting deficits of \$10 billion, \$11 billion, or \$12 billion each year as far as I can see in the future. That, Mr. Chairman, is the time bomb for inflation.

You can turn your back on the threat of inflation if you like, as the gentleman from Louisiana did earlier today, but you will turn your back on those who need your help the most—the poor, the retired, those living on pensions and fixed incomes. You will turn your back on your children. You will turn your back on the private economy, that you finally purport to have some confidence in. You will invite wage and price controls which will be the death knell of our economic system.

You will turn your back on the integrity of your currency, of the dollar, which already is in trouble abroad. You will invite devaluation and all of the disasters that accompany it, both at home and abroad. Make no mistake about it. When you turn your back on inflation you are flirting with real danger. That is why many of us think a tax reduction ought to be accompanied by a curb on spending. That is why we insist on a commitment, both with ourselves and with the President, to hold the line on spending. We must place a reasonable ceiling on expenditures if this reduction in taxes is to become a reality.

The President and the chairman say we should have the tax reduction without any "ifs" or "buts." I say to you, and I think the overwhelming opinion of

the American people agree with me, that there must be an "if" and there must be a "but." We should have a tax cut, but we must call a halt to the growth of spending. We can have a meaningful, safe, and permanent tax reduction if, and only "if," we put a restraint on spending and are thus able to thwart the contemplated increases in spending.

When we tried in 1947 to relieve the economy from the high wartime taxes of World War II the now chairman of this committee had some "ifs" and some "buts" and, to his honor, our former chairman, Bob Doughton, God rest his soul, a great man, had some "ifs" and some "buts." They appeared as signatures on a minority report of March 24 on the tax bill of 1947, reducing the high wartime rates of World War II. Let me just quote this report that was subscribed to by all of the Democratic members of the Ways and Means Committee, including my chairman. They headed it in bold print:

**A BALANCED BUDGET, DEBT RETIREMENT, THEN
TAX REDUCTION**

The following priority should prevail under a sound fiscal policy: first, the budget should be balanced; second, a substantial payment toward debt retirement should be provided; third, and only after the fulfillment of the first two conditions, taxes can be reduced. It is our conviction that a sound fiscal policy, rather than political expediency, should receive first consideration.

What has happened to that philosophy as far as the Democrats are concerned? I know as far as the Republicans are concerned we still maintain that fiscal responsibility should come first.

I have more respect for the position that the Democrats took in 1947 than I have for the position they are taking now.

I am not the only one who says there must be some "ifs" and "buts."

In a sense, if you read it, the committee report on this bill says there must be some "ifs" and some "buts." The report says that we should reduce taxes but we should also restrain Government spending. Section 1 of the bill says this, even though it is wishy-washy, as the gentleman from Virginia said. But the majority do make the statement.

The chairman said there should be some "ifs" and "buts" to this bill. He told us repeatedly yesterday that there should be tax reduction but also that we should reject efforts to enlarge the role of the public sector in our economy. Is not that an "if"? Is not that a "but"? I think it is.

Bernard Baruch, the former adviser to Presidents, has said there must be "ifs" and "buts" to tax reduction. Your former President, Harry Truman, says there will have to be "ifs" and "buts."

The only difficulty with the chairman's position, and the committee's position, is that they are unwilling to do anything concrete about their "buts."

Everybody says that we must restrain spending. The question is: Are they willing to make a commitment? As far as the committee, the chairman, and the administration, and even the President, are concerned, they pay lip service to the need for holding spending down, but then they run off in all directions to avoid accomplishing it.

I must say I have become very, very confused. I was confused by this double talk on spending and tax reduction emanating from the other side. But I became even more confused as I picked up this morning's Washington Post. Here are two items appearing in this morning's newspaper, one on page 1, one on page 2. On page 1, on the subject of tax reduction, here is what the newspaper says:

MILLS had a warning for the spenders on his side of the aisle. If Congress takes the road of tax reduction, it cannot continue on the road of spending for new programs to jack up the economy, MILLS said.

Then I look to page 2 and I find an article about the President's barnstorming through my part of the country, out in the Middle West. This article says that the President called on Congress in his speeches there to expand the Federal loan-and-grant program to develop depressed areas—that is, the Area Redevelopment Authority bill that was defeated once already in this House and now the administration is now trying to bring up for a vote a second time.

In addition to the depressed areas program, the President cited the Federal aid-to-education programs, the accelerated public works program, the proposed Youth Conservation Corps, the rural areas development program—as further bills the Congress should enact.

Now in what direction are we going? The President talks one day about rigid control and economy. In addition, the chairman of our committee told us yesterday that the President agrees that you cannot have tax reduction and also go on a spending spree. And then the President in the Middle West says, "Oh, but we have to have all this spending." Now where are we?

I think if we vote for an \$11 billion tax reduction without settling this spending issue, we will be acting in a most irresponsible manner. We must impose upon tax reduction as a condition, that the rigid economy promised and talked about will be adhered to. We must condition tax reduction on a specific ceiling on expenditures. That is

what the motion to recommit does. It substitutes legislation for vain wishes, vain promises, and vague hopes. It would amend the bill by adding on page 27, after line 23, the following:

SEC. 133. REDUCTION OF TAX RATES CONTINGENT ON EXPENDITURE CONTROL

(a) General Rule.—The amendments made by this title and title III shall not take effect unless the Budget of the United States Government which is required by section 201(a) of the Budget and Accounting Act, 1921 (31 U.S.C., sec. 11(a)), to be transmitted to the Congress during the first 15 days of the regular session of the Congress beginning in 1964 sets forth—

(1) an amount not in excess of \$97,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1964, and

(2) an amount not in excess of \$98,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1965.

(b) Effect of Prior Publication.—If the President—

(1) determines that the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, which will be set forth in the budget referred to in subsection (a) meet the requirements of paragraphs (1) and (2) of subsection (a), and

(2) causes such amounts to be published in the Federal Register before the date on

[P. 17193]

which such budget is transmitted to the Congress,

then the contingency provided by subsection (a) shall be treated as satisfied.

(c) Effective Date of Withholding.—Notwithstanding section 302(d), the amendments made by section 302 (and the provisions of the Internal Revenue Code of 1954 amended by such section) shall not apply with respect to amounts paid before the 30th day after whichever of the following dates is the earlier: The date on which a budget referred to in subsection (a) which meets the requirements of paragraphs (1) and (2) thereof is transmitted to the Congress, or the date on which the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, are published in the Federal Register pursuant to subsection (b).

It is regrettable that we do not have in the Congress as of this date a mechanism or a procedure for establishing either a spending or appropriation ceiling that will be more binding. But it is no excuse not to do what we can with the tools that we have at our command.

We have a Budget and Accounting Act. Let us remember that. We have a Budget and Accounting Act, and under it the President is required to calculate the level of expenditures at the beginning of each session. He does this on the basis of the appropriations that have been

made by the Congress and on the basis of the plans that he has with regard to the rate at which expenditures will be made. Under the Budget and Accounting Act the President is required to make these calculations for the current year and for the ensuing year. He will have to do it next January for fiscal year 1964, which we are now in; and for fiscal year 1965 which is the ensuing year.

The Budget and Accounting Act says the President should look at his plans, and where we are, and what Congress has done, and tell us what the expenditure levels are going to be. What do we say in this motion to recommit? We say that tax reduction will take effect, not on what the President elects to do, but on the basis of what the figures and the calculations show the situation to be.

If, as a result of those calculations, the level of expenditure exceeds \$97 billion for 1964, the tax reduction will not go into effect. Furthermore, if expenditures are to exceed \$98 billion for 1965, the tax reduction will not go into effect.

The President under the act does not just pick some figure out of the air. Congress set up a Bureau of the Budget to help him review our fiscal situation. The Bureau of the Budget provides the data for the President to be able to tell us where we are going and what the figures are. All we say in the motion to recommit is that these figures will determine if the tax reduction goes into effect.

We are not delegating any authority to the President. The President already has the authority and the responsibility under the Budget and Accounting Act to determine what the actual and projected level of expenditures are in fact. We are saying if those estimated levels are within the limitations imposed in the motion, the tax reduction goes into effect. If they are not, the tax reduction does not go into effect. For the life of me I cannot understand my friend, the gentleman from Texas [Mr. MAHON], and others who have said that this is a delegation of authority to the President. All we do is to use figures that he is already required by law to submit to the Nation. If those figures show that we can afford a tax reduction, then the tax reduction goes into effect.

If they show we cannot, the tax reduction does not go into effect. I do not know a more responsible way to condition tax reduction on expenditure controls, I wish we had a more perfect way.

It is true that the President may determine, subsequent to the date of his budget message, that there should be an increase in expenditures. I am relying on the fact that I trust the President

and believe he will be honest in carrying out the law. But look at the Budget Act, those of you who worry about his finagling or juggling of figures. The act says the President can transmit supplemental or deficiency appropriations to the Congress. It also says, though, that he shall accompany such proposals with a statement of the reasons therefor, including the reason for their omission from the budget.

The President has to submit to us under the law his expenditure levels for fiscal 1964 and 1965. And we say by this motion that these expenditure levels will determine whether this tax cut goes into effect. We are not passing the buck to the President. We are putting some of the burden on our own shoulders. Whether the President can live within \$97 billion as far as fiscal 1964 is concerned will depend on some of our actions between now and the end of this session as we vote on the appropriation bills.

Mr. HALLECK. Mr. Chairman, will the gentleman yield?

Mr. BYRNES of Wisconsin. I yield to the gentleman from Indiana.

Mr. HALLECK. It has been suggested in some quarters that if this motion to recommit should prevail, it leaves in the air a question as to whether the tax cut will become effective in January. Will not the gentleman agree with me, with this bill having to go to the other body and the hearings being held over there, that if there is to be a tax bill this year, it will be very late in the year and certainly no one will know for sure what will happen until that day arrives?

Mr. BYRNES of Wisconsin. This matter of uncertainty is just as much a smokescreen as all of the rest of the complaints they have voiced about this particular motion to recommit. It has no basis in fact. As I read the newspapers, there is uncertainty as to what the Senate is going to do and whether they are going to act this year on the tax bill. If the motion is passed we will know at the latest 15 days after the next session of Congress meets whether these levels are met. In fact, we will know before that if the President desires to publish these figures in the Federal Register prior to his budget message. All we are doing is making tax cuts contingent on expenditure cuts. The President simply indicates what the facts show.

Let us talk a little bit about this spending and who has the responsibility. I only mention it because of some things that have been said during the debate on this bill. It makes me feel that maybe there is some uncertainty even in this body, and what I have read in the press

and some other places indicates that there is confusion. It is true that the sole power to appropriate funds, subject to veto, rests with the Congress. It is also true, however, that the President substantially determines the level of Federal spending. The motion to recommit was framed in recognition of that overlapping responsibility. The President initiates the spending. He does so when he submits to Congress, after lengthy consideration by the Bureau of the Budget and elsewhere, his appropriation requests in the annual budget message. He sets the level of the expenditures on the basis not only of new spending authority, which he asks of Congress, but also on the unobligated authority already available to him. At the start of this fiscal year, this unobligated authority amounted to \$87 billion. The President determines, in large measure, the level or the rate at which that \$87 billion is being spent, not the Congress, because we have already given him the \$87 billion.

Within the spending authority he has available, the President has a wide choice. He can use the spending authority to the limit. He can use part of it, or need not use any of it. In essence his budget message is based on his judgment of the national priority of various programs.

I heard the argument made by some that this gives an item veto to the President. They assume that the President cannot do anything about spending. Well, what was the exercise performed down in the White House just a couple of days ago in an effort to influence the vote on this tax bill?

In that instance the President called in his Cabinet and he said "Now I want you to hold the level of employment down to save some money; we are going to economize." What was that if it was not Executive control over expenditure levels and the rate of expenditures?

The administration bragged in 1962 that they had cut back; they said that the President had called in the Cabinet officers and read the riot act to them and said, "You boys have to cut more." And finally we asked them, "How much did you save?" They said, "We saved \$1 billion by that process." That is what they said in 1962.

The President does have this authority, and that is all we are contending. This is not an item veto. He has the authority by his control over the level of expenditure. And mark this when anybody says that all control is in the Congress.

There is a certain matter of Presidential prestige and influence. I am

not very enthusiastic about it, but I have seen some of it exercised today. It makes me wonder how much of a free agent some Members of Congress actually are.

The President has considerable control over spending. But we share it, too. All we are suggesting in this amendment

[P. 17194]

is that when the combined responsibility is added up, what the Congress does in appropriations, what the President proposes as his level of expenditures, if it points to a situation where we will not exceed \$97 billion of expenditures for 1964 and \$98 billion for 1965, the tax cut goes into effect. But if we are going to exceed those levels, then the tax reduction cannot go into effect because we cannot afford it.

It is not a matter of who is going to get the blame. I should assume that the blame would fall in both places, on those who voted during this Congress for increases in appropriations, who voted for new programs, and on the President; that it will be shared jointly. And that is where the responsibility should be. And that is what this motion tries to do. It puts the responsibility where it belongs so that the people may be able to look at some of these rollcalls on the Area Redevelopment Authority and all the rest that the administration pressure will be put on to pass. The people will look at them and say, "Let us see how you voted, whether you voted for or against these things. Let us see who is really trying to give us our tax reduction." That is the purpose of the motion to recommit, and that is what it will accomplish.

Mr. Chairman, let me say one further thing.

Figures are not unreasonable figures. My colleagues and I have tried to work out what we thought came within reason. As things stand now, the administration estimates that expenditures for 1964 will be about \$98 billion. We say you can make a further \$1 billion cut. And I am sure the gentleman from Missouri [Mr. CANNON] will agree with me that if the other body sustains some of the cuts that his committee has approved, and which have passed through this House, we can live within \$97 billion. We can save \$1 billion that was planned to be spent by the executive branch. We can do that. That is all we ask.

The proposed limitation of \$98 billion on spending for fiscal 1965 is certainly attainable. This is \$5½ billion over what was spent in fiscal 1963, and \$1 billion over the proposed ceiling for fiscal 1964. The administration has ample

time to review the priorities for fiscal 1965 and decide upon the expenditures which should be given preference. If that is done instead of trying to dream up new expenditures, I am confident that the President and the Congress will be able to comply with the limitations on spending both for fiscal 1964 and 1965.

I do not regard the motion to recommit as placing the tax cut in jeopardy. I regard it as making the tax cut permanent. To me it is the only responsible thing to do, to bind ourselves by some commitment to hold the level of expenditures, or else there can be no tax reduction.

Mr. MILLS. Mr. Chairman, I yield myself 10 minutes.

Mr. Chairman, before beginning, I should like to ask the gentleman from Wisconsin [Mr. BYRNES], am I correct in my understanding that the gentleman's motion to recommit is the motion that he submitted for release on September 18 last?

Mr. BYRNES of Wisconsin. Before the Rules Committee.

Mr. MILLS. Before the Rules Committee? That will be the motion to recommit to which the gentleman has referred?

Mr. BYRNES of Wisconsin. Yes.

Mr. MILLS. I thank the gentleman. Again, on my own time I want to thank my distinguished friend, the gentleman from Wisconsin [Mr. BYRNES], for the contributions that he made during all the time that we considered this bill. When it came to a vote on most of the provisions which are contained in the bill—I do not say all of the bill—on most of them the gentleman from Wisconsin joined the chairman and other members of the committee in support of those provisions.

The gentleman voted for the provisions which are contained in title I and title III of the bill which provide for the reduction over a 2-year period in rates, from 20 to 91 percent for individuals to 14 to 70 percent, and for corporations, from 52 to 48 percent in total, and the change in the normal tax from 30 to 22 percent in behalf of small business.

Mr. Chairman, the gentleman from Wisconsin made many other contributions to this bill. So, I do want to thank the gentleman. I want to assure him of my deep appreciation for those contributions.

Mr. Chairman, the gentleman has said that he is opposed to these high World War II taxes and that the Republican Party is entitled to take credit for the elimination of some of them. Yes; the Republican Party did vote for a tax

reduction in 1948. The Republican Party did again vote for a tax reduction in the 83d Congress. I do not care what my good friend, the gentleman from Indiana [Mr. HALLECK], who is one of my good friends, says, I know good and well it was not the fact that the Republicans cut taxes which caused the Republican Party to lose the House. You just could not point to anything else much which you had done. That is the reason. So do not have concern, my friends on the Democratic side, that to be for a tax reduction at this time means your defeat in the coming election per se, just that and that alone.

Mr. Chairman, I do want to again emphasize the theme of what I said yesterday, very briefly. I think as far as the economic policy in the United States is concerned which, of course, includes fiscal policy, expenditure policy and tax policy, we are at the forks of the road. Either we from this day forward begin to place greater reliance upon the private sector of our economy to help us solve some of the problems of today or on down the road in the future we will be faced not with present rates of spending by the Federal Government, but we will be faced with even higher rates of spending by the Federal Government and somebody will suggest that Government in Washington, since the private sector cannot solve its part of these problems, will have to take over and make a greater effort to solve them. That is what is involved in this legislation, a recognition of the importance and role that the private sector can play in the solution of these problems which we have today.

Now, Mr. Chairman, my friend, the gentleman from Wisconsin [Mr. BYRNES], says that he agrees with all this, that he feels this tax bill can do some good, that these tax rates are too high, but that there is another element involved here that we discussed yesterday and with which I am in complete accord, as I stated yesterday. We cannot reduce taxes and be unmindful of the spending levels of Government. We must make a diligent effort here to hold a tight rein on spending if we are to go up this road of tax reduction.

Now, Mr. Chairman, the gentleman says that in fiscal year 1964, if we take this step of reducing expenditures to the extent of about \$1 billion for this fiscal year and continue at what is the present estimate of spending, \$98 billion in the fiscal year 1965 we will be fiscally responsible.

He gets us into a numbers game. If you shave \$1 billion off of the present estimate for 1964, without regard to what effect it has upon our Government, but

just announce that the spending in fiscal 1964 is going to be \$1 billion less, then we become fiscally responsible and we can have a tax reduction now.

He also is aware of the statement that was made in the letter from the President to us in pointing out that he committed himself to a deficit in 1965 fiscal year of less than the deficit which the Secretary of the Treasury said would be the case in fiscal 1964 with the tax bill.

My friend knows that that figure was \$9.2 billion. Then he says if we will hold the rate of spending at the level of \$98 billion we can suddenly become fiscally responsible because, according to Mr. Byrne's estimates this means we are requiring the President to hold his deficit for 1965, not to \$9.2 billion, but to \$9 billion. Thus a difference of two-tenths of a billion dollars, according to this motion makes us fiscally responsible. I wish to goodness it would. I wish I could believe what I heard the gentleman say on television the other day, that he had found the unbreakable way of holding down spending.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

I suggest that the gentleman quote me accurately.

Mr. MILLS. I yield to the gentleman if I have misquoted him. I thought he said he had found the formula.

Mr. BYRNES of Wisconsin. I never insisted on that, and I never claimed that. The gentleman was at the Rules Committee when I made it clear that this was not a perfect solution. Nevertheless, we would have made a commitment to ourselves.

Mr. MILLS. You do not have a commitment to yourself in your motion. All you are doing is trying to tell the President of the United States if he does not engage in your formula of magic numbers there will be no tax bill. That is what you are saying. What are you do-

[P. 17195]

ing? You are doing what I thought my friend from Wisconsin would never do for a Republican or a Democratic President. You are saying that we in the Congress are not going to determine the expenditure policy and the reduction of taxes but you are going to have him do it by engaging with you in these magic numbers that you have come up with. Your formula is to require that he submit certain estimates. It has nothing to do whatsoever with what the Congress will appropriate and what the rate of spending will be during the fiscal year 1964 or the fiscal year 1965. But it is going to make the people think that we have set a ceiling and then a little later

on, 6 or 18 months from now, they may find out we have not changed from, say, \$98.5 billion for 1965 or from \$97.1 billion for 1964, and that our ceiling did not work.

I am not going to vote for something I know after the study we have given to this is not going to have one iota of effect upon the rate of spending.

Let me tell you what it does. Your proposal looks to 2 fiscal years. The gentleman from Wisconsin, I am certain, agrees with me that the question of bringing down Federal expenditures is not just a 2-year proposition. It is a proposition in the long range and it is going to take a long-range approach to bring it down. Everybody in this House knows if we adopt the motion it does not replace the substance of section 1. As a matter of fact, it is going to be interpreted to replace it. It takes the onus, therefore, off the Congress and passes the buck completely to the White House. It says, "Mr. President, even though we have your appropriation bills up here for 1964, even though the House of Representatives, according to what the chairman of the Appropriations Committee has said, has cut those appropriation bills so far by \$3.8 billion, even though that matter is here, unresolved for the most part, and not acted on in the other body, we are going to tell you now that whatever you do, if we give you authority, if we make it \$98 billion, we give you authority to put a billion dollars of it anywhere you want to."

That is authority that the Congress has never wanted to give to any President of the United States, by turning down the proposition of the item veto. I for one have told everyone that I would never vote for any such proposition. The President has recommended in the past that we give him authority to cut taxes by 10 percent. The proposal of the gentleman from Wisconsin gives the executive branch the right to cut taxes and set the timing of the cut. I say to anyone who believes in the preservation of the prerogatives of the legislative body, how can you think in terms of giving to a Chief Executive authority that a Chief Executive is not even asking for? How can you ask another coordinate branch of the Government to try to do things that are our responsibility, if we are not going to surrender here to the Executive the final decision over fiscal policy and tax policy? I do not believe we want to do that.

But there is a fundamental weakness in this motion to recommit. It is going to put my friends who vote for it in the position of being in doubt up to January 1 next year or to the submission of

the budget figure as to whether they have voted for tax reduction or tax increases. I do not know whether the gentleman intends it this way or not, but this motion I referred to, I asked him if that was what he will offer and he said it is what he will offer. It is an amendment in the form of a motion to recommit. On page 27, after line 23, it says that under these conditions we have been talking about, these magic figures of \$97 and \$98 billion, then this title, this title I on rates, and title III, which is the one having to do with withholding, will not go into effect. Those are the titles that provide for tax reduction. Title II continues in effect. There is no doubt about its becoming law. The President has nothing to say about this. That is the title of the bill that provides for all the structural changes, including the repeal of the dividend credit, which the gentleman from Wisconsin deplores, including the denial of certain State and local tax deductions, that the gentleman from Wisconsin deplores, including the 6 percentage points penalty on corporations in a controlled group that use a multiplicity of surtax exemptions, 6 percentage points penalty for that. No tax reduction at all is involved in title II which is not touched by Mr. BYRNES' amendment.

Do you want to leave here tonight having voted for a motion that you cannot explain to your constituents, knowing that when you voted for it, it resulted in an increase of \$900 million or \$1 billion in their tax, or a bill that actually brought about an overall reduction of approximately \$11 billion in the tax burdens of all the people of the United States? Do we want to leave here with that uncertainty hanging over our heads? I am surprised at my friend.

Mr. BYRNES of Wisconsin. I am surprised at my friend.

Mr. MILLS. I am not reflecting upon my friend.

Mr. BYRNES of Wisconsin. The gentleman knew this was the situation, and I am willing to admit it. Furthermore, I am perfectly willing to debate what he is now talking about, but you notice my time has all expired and he has 5 minutes left.

Mr. MILLS. My friend has been on the Ways and Means Committee too long for me to know that he needs my help in the development of any amendment he offers or any motion to recommit. This amendment has been available in print since September 17 last. I assume that is what he intends. If it is not, the gentleman has time to change it. But if he changes it now will we

know then whether it increases taxes or reduces taxes, as we want to do?

Mr. Chairman, I hope this motion on its merits or, if for no other reason than its technical imperfection, will be turned down overwhelmingly by the House and that the House, in turn, will pass the legislation before it and send it on to the other body where that body can consider it this year. I trust, Mr. Chairman, that my colleagues will see the virtue of going along with the work of the Committee on Ways and Means as it has on so many other occasions.

I thank my colleagues for having the patience to listen to me this afternoon.

The CHAIRMAN. Does the gentleman from Arkansas wish to yield any further time?

Mr. MILLS. No, Mr. Chairman.

The CHAIRMAN. All time has expired.

Under the rule, the bill is considered as having been read for amendment.

No amendments are in order to the bill except amendments offered by direction of the Committee on Ways and Means.

Are there any committee amendments?

Mr. MILLS. Mr. Chairman, I offer an amendment which is a technical amendment correcting certain clerical errors in the printing of the bill. Though the amendment applies to pages 39, 107, 244, and 266 of the bill, it is offered as one amendment.

The CHAIRMAN. The Clerk will report the amendment.

The Clerk read as follows:

Page 39, lines 4 and 5, strike out "exceeds" and insert: "does not exceed".

Page 107, line 7, strike out "apply" and insert: "applies".

Page 244, line 22, strike out "dividend" and insert: "dividends".

Page 266, line 3, strike out "clause," and insert: "subparagraph,".

The CHAIRMAN. The question is on the committee amendment.

The committee amendment was agreed to.

The CHAIRMAN. Under the rule, the Committee rises.

Accordingly, the Committee rose and Mr. ROOSEVELT, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee having had under consideration the bill, H.R. 8363, to amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes and to make certain structural changes with respect to the income tax, and for other purposes, pursuant to House Resolution 527, he reported the bill back to the House with an amendment adopted in Committee of the Whole.

The SPEAKER. Under the rule, the previous question is ordered.

The question is on the amendment.

The amendment was agreed to.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. For what purpose does the gentleman from Wisconsin [Mr. BYRNES] rise?

Mr. BYRNES of Wisconsin. Mr. Speaker, I offer a motion to recommit which is at the desk.

The SPEAKER. Is the gentleman opposed to the bill?

Mr. BYRNES of Wisconsin. I am, Mr. Speaker.

[P. 17196]

The SPEAKER. The gentleman qualifies.

The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. BYRNES of Wisconsin moves to recommit the bill (H.R. 8363) to the Committee on Ways and Means with instructions to report the same back to the House forthwith with the following amendment:

"Page 27, after line 23, insert:

"SEC. 133. REDUCTION OF TAX RATES CONTINGENT ON EXPENDITURE CONTROL

"(a) GENERAL RULE.—The amendments made by this title and title III shall not take effect unless the Budget of the United States Government which is required by section 201(a) of the Budget and Accounting Act, 1921 (31 U.S.C., sec. 11(a)), to be transmitted to the Congress during the first 15 days of the regular session of the Congress beginning in 1964 sets forth—

"(1) an amount not in excess of \$97,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1964, and

"(2) an amount not in excess of \$98,000,000,000 as the estimated administrative budget expenditures for the fiscal year ending June 30, 1965.

"(b) EFFECT OF PRIOR PUBLICATION.—If the President—

"(1) determines that the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, which will be set forth in the budget referred to in subsection (a) meet the requirements of paragraphs (1) and (2) of subsection (a), and

"(2) causes such amounts to be published in the Federal Register before the date on which such budget is transmitted to the Congress,

then the contingency provided by subsection (a) shall be treated as satisfied.

"(c) EFFECTIVE DATE OF WITHHOLDING.—Notwithstanding section 302(d), the amendments made by section 302 (and the pro-

visions of the Internal Revenue Code of 1954 amended by such section) shall not apply with respect to amounts paid before the 30th day after whichever of the following dates is the earlier: The date on which a budget referred to in subsection (a) which meets the requirements of paragraphs (1) and (2) thereof is transmitted to the Congress, or the date on which a the amounts of the estimated administrative budget expenditures for the fiscal years ending June 30, 1964, and June 30, 1965, are published in the Federal Register pursuant to subsection (b).'"

Mr. MILLS (during the reading of the motion to recommit). Mr. Speaker, I ask unanimous consent, if it is agreeable to the gentleman from Wisconsin, to dispense with the further reading of the motion since we have had copies of it and it has been available to us.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. MILLS. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

Mr. BYRNES of Wisconsin. Mr. Speaker, I ask for the yeas and nays.

Mr. MILLS. Mr. Speaker, I join the gentleman from Wisconsin in asking for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 199, nays 226, not voting 7, as follows:

[Roll No. 156]

YEAS—199

Abbitt	Brotzman	Findley
Abele	Brown, Ohio	Fino
Abernethy	Broyhill, N.C.	Ford
Adair	Broyhill, Va.	Foreman
Alger	Bruce	Frelinghuysen
Anderson	Burton	Fulton, Pa.
Arends	Byrnes, Wis.	Gathings
Ashbrook	Cahill	Glenn
Ashmore	Cannon	Goodell
Auchincloss	Cederberg	Goodling
Avery	Chamberlain	Griffin
Ayres	Chenoweth	Gross
Baker	Clancy	Grover
Baldwin	Clausen	Gurney
Baring	Don H.	Haley
Barry	Clawson, Del.	Hall
Bates	Cleveland	Halleck
Battin	Collier	Halpern
Becker	Colmer	Harrison
Beermann	Conte	Harsha
Belcher	Corbett	Harvey, Ind.
Bell	Cramer	Harvey, Mich.
Bennett, Mich.	Cunningham	Henderson
Berry	Curtin	Hoeven
Betts	Curtis	Hoffman
Bolton,	Dague	Horan
Frances P.	Derounian	Horton
Bolton,	Derwinski	Huddleston
Oliver P.	Devine	Hutchinson
Bow	Dole	Jarman
Bray	Dorn	Jensen
Brock	Dowdy	Johansen
Bromwell	Dwyer	Jonas
Broomfield	Ellsworth	Keith

Kilburn
King, N.Y.
Knox
Kunkel
Kyl
Laird
Langen
Latta
Lennon
Lindsay
Lipscomb
Lloyd
McClory
McCulloch
McDade
McIntire
McLoskey
MacGregor
Mailliard
Marsh
Martin, Calif.
Martin, Mass.
Martin, Nebr.
Mathias
May
Meador
Michel
Miller, N.Y.
Milliken
Minshall
Moore
Morse
Morton
Mosher

Nelsen
Norblad
Osmers
Ostertag
Passman
Pelly
Pillion
Pirnie
Poff
Pool
Quile
Quillen
Reid, Ill.
Reid, N.Y.
Reifel
Rhodes, Ariz.
Rich
Riehlman
Robison
Roudebush
Rumsfeld
St. George
Saylor
Schadeberg
Schenck
Schneebell
Schweiker
Schwengel
Scott
Short
Shriver
Sibal
Siler
Skubitz

Smith, Calif.
Smith, Va.
Snyder
Springer
Stafford
Stinson
Taft
Talcott
Taylor
Teague, Calif.
Thomson, Wis.
Tollefson
Tuck
Tupper
Utt
Van Pelt
Waggoner
Wallhauser
Watson
Weaver
Westland
Whalley
Wharton
Whitten
Widnall
Williams
Wilson, Bob
Wilson, Ind.
Winstead
Wydler
Wyman
Younger

NAYS—226

Addabbo
Albert
Andrews
Ashley
Aspinall
Barrett
Bass
Beckworth
Bennett, Fla.
Blatnik
Boggs
Boland
Bolling
Bonner
Brademas
Brooks
Brown, Calif.
Buckley
Burke
Burkhalter
Burleson
Byrne, Pa.
Cameron
Carey
Casey
Celler
Chelf
Clark
Cohelan
Cooley
Corman
Daddario
Daniels
Davis, Ga.
Davis, Tenn.
Dawson
Delaney
Dent
Denton
Diggs
Dingell
Donohue
Downing
Dulski
Duncan
Edmondson
Edwards
Elliott
Everett
Evins
Fallon
Farbstein
Fascell
Feighan

Finnegan
Fisher
Flood
Flynt
Fogarty
Forrester
Fountain
Fraser
Friedel
Fulton, Tenn.
Fuqua
Gallagher
Garmatz
Gary
Giaino
Gibbons
Gilbert
Gill
Gonzalez
Grabowski
Grant
Gray
Green, Oreg.
Green, Pa.
Griffiths
Hagan, Ga.
Hagen, Calif.
Hanna
Hansen
Harding
Hardy
Harris
Hawkins
Hays
Healey
Hébert
Hechler
Hemphill
Herlong
Holifield
Holland
Hull
Ichord
Jennings
Joelson
Johnson, Calif.
Johnson, Wis.
Jones, Ala.
Jones, Mo.
Karsten
Karth
Kastenmeier
Kee
Kelly

Keogh
Kilgore
Kling, Calif.
Kirwan
Kluczynski
Kornegay
Landrum
Lankford
Leggett
Lesinski
Libonati
Long, La.
Long, Md.
McDowell
McFall
McMillan
Macdonald
Madden
Mahon
Matsunaga
Matthews
Miller, Calif.
Mills
Minish
Monagan
Montoya
Moorhead
Morgan
Morris
Morrison
Moss
Multer
Murphy, Ill.
Murphy, N.Y.
Murray
Natcher
Nedzi
Nix
O'Brien, N.Y.
O'Hara, Ill.
O'Hara, Mich.
O'Konski
Olsen, Mont.
Olson, Minn.
O'Neill
Patman
Patten
Pepper
Perkins
Philbin
Pike
Pilcher
Poage
Powell

NAYS—Continued

Price	Ryan, Mich.	Thompson, N.J.
Pucinski	St Germain	Thompson, Tex.
Purcell	Secrest	Thornberry
Rains	Selden	Toll
Randall	Senner	Trimble
Reuss	Shelley	Tuten
Rhodes, Pa.	Shipley	Udall
Rivers, Alaska	Sickles	Ullman
Rivers, S.C.	Sikes	Van Deerlin
Roberts, Ala.	Sisk	Vanik
Roberts, Tex.	Slack	Vinson
Rodino	Smith, Iowa	Watts
Rogers, Colo.	Staebler	Weltner
Rogers, Fla.	Staggers	White
Rogers, Tex.	Steed	Wickersham
Rooney, N.Y.	Stephens	Willis
Rooney, Pa.	Stratton	Wilson,
Roosevelt	Stubblefield	Charles H.
Rosenthal	Sullivan	Wright
Rostenkowski	Teague, Tex.	Young
Roush	Thomas	Zablocki
Roybal	Thompson, La.	

NOT VOTING—7

Gubser	Ryan, N.Y.	Sheppard
Hosmer	St. Onge	Whitener
O'Brien, Ill.		

So the motion to recommit was rejected.

The Clerk announced the following pairs:

On this vote:

Mr. Gubser for, with Mr. O'Brien of Illinois against.

Mr. Hosmer for, with Mr. Whitener against.

Until further notice:

Mr. St. Onge with Mr. Ryan of New York.

The result of the vote was announced as above recorded.

The SPEAKER. The question is on the passage of the bill.

Mr. MILLS. Mr. Speaker, on that I ask for the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 271, nays 155, not voting 6, as follows:

[Roll No. 157]

YEAS—271

Adair	Cameron	Elliott
Addabbo	Cannon	Everett
Albert	Carey	Evins
Ashley	Casey	Fallon
Aspinall	Celler	Farbstein
Auchincloss	Chelf	Fascell
Ayres	Clark	Feighan
Barrett	Cohelan	
Barry	Conte	[P. 17197]
Bass	Cooley	
Bates	Corbett	Finnegan
Beckworth	Corman	Fino
Bell	Daddario	Flood
Bennett, Fla.	Daniels	Flynt
Bennett, Mich.	Davis, Ga.	Fogarty
Blatnik	Davis, Tenn.	Fountain
Boggs	Dawson	Fraser
Boland	Delaney	Frelinghuysen
Bolling	Dent	Friedel
Bonner	Denton	Fulton, Pa.
Bow	Diggs	Fulton, Tenn.
Brademas	Dingell	Fuqua
Brooks	Donohue	Gallagher
Broomfield	Dorn	Garmatz
Brown, Calif.	Dowdy	Gialmo
Buckley	Downing	Gibbons
Burke	Dulski	Gilbert
Burkhalter	Duncan	Gill
Burleson	Dwyer	Glenn
Byrne, Pa.	Edmondson	Gonzalez
Cahill	Edwards	Goodell

Grabowski	Martin, Mass.	Rosenthal
Grant	Matsunaga	Rostenkowski
Gray	Matthews	Roush
Green, Oreg.	Miller, Calif.	Roybal
Green, Pa.	Mills	Ryan, Mich.
Griffiths	Minish	St Germain
Grover	Monagan	Saylor
Hagan, Ga.	Montoya	Schenck
Hagen, Calif.	Moore	Scott
Halpern	Moorhead	Secrest
Hanna	Morgan	Senner
Hansen	Morris	Shelley
Harding	Morrison	Sheppard
Hardy	Morse	Shipley
Harris	Mosher	Sibal
Hawkins	Moss	Sickles
Hays	Multer	Siler
Healey	Murphy, Ill.	Sisk
Hébert	Murphy, N.Y.	Slack
Hechler	Murray	Staebler
Hemphill	Natcher	Stafford
Henderson	Nedzi	Staggers
Herlong	Nix	Steed
Hollifield	O'Brien, N.Y.	Stephens
Holland	O'Hara, Ill.	Stratton
Horton	O'Hara, Mich.	Stubblefield
Huddleston	O'Konski	Sullivan
Hull	Olsen, Mont.	Taylor
Ichord	Olson, Minn.	Thomas
Jarman	O'Neill	Thompson, La.
Jennings	Osmers	Thompson, N.J.
Joelson	Ostertag	Thompson, Tex.
Johnson, Calif.	Patman	Thornberry
Johnson, Wis.	Patten	Toll
Jones, Ala.	Pepper	Tollefson
Karsten	Perkins	Trimble
Karth	Philbin	Tupper
Kastenmeyer	Pike	Tuten
Kee	Pirnie	Udall
Kelly	Powell	Ullman
Keogh	Price	Van Deerlin
Kilgore	Pucinski	Vanik
King, Calif.	Purcell	Vinson
Kirwan	Rains	Waggonner
Kluczynski	Randall	Wallhauser
Kornegay	Reid, N.Y.	Watts
Kyl	Reuss	Weaver
Landrum	Rhodes, Pa.	Weltner
Lankford	Riehlman	Whalley
Leggett	Rivers, Alaska	White
Lesinski	Rivers, S.C.	Wickersham
Libonati	Roberts, Ala.	Widnall
Lindsay	Roberts, Tex.	Williams
Long, La.	Robison	Willis
Long, Md.	Rodino	Wilson,
McDade	Rogers, Colo.	Charles H.
McDowell	Rogers, Fla.	Wilson, Ind.
McFall	Rogers, Tex.	Wydler
McMillan	Rooney, N.Y.	Young
Macdonald	Rooney, Pa.	Zablocki
Madden	Roosevelt	

NAYS—155

Abbitt	Brock	Derounian
Abele	Bromwell	Derwinski
Abernethy	Brotzman	Devine
Alger	Brown, Ohio	Dole
Anderson	Broyhill, N.C.	Ellsworth
Andrews	Broyhill, Va.	Findley
Arends	Bruce	Fisher
Ashbrook	Burton	Ford
Ashmore	Byrnes, Wis.	Foreman
Avery	Cederberg	Forrester
Baker	Chamberlain	Gary
Baldwin	Chenoweth	Gathings
Baring	Clancy	Goodling
Battin	Clausen,	Griffin
Becker	Don H.	Gross
Beermann	Clawson, Del	Gurney
Belcher	Cleveland	Haley
Berry	Collier	Hall
Betts	Colmer	Halleck
Bolton,	Cramer	Harrison
Frances P.	Cunningham	Harsha
Bolton,	Curtin	Harvey, Ind.
Oliver P.	Curtis	Harvey, Mich.
Bray	Dague	Hoeven

Hoffman	May	Selden
Horan	Meader	Short
Hutchinson	Michel	Shriver
Jensen	Miller, N.Y.	Sikes
Johansen	Milliken	Skubitz
Jonas	Minshall	Smith, Calif.
Jones, Mo.	Morton	Smith, Iowa
Keith	Nelsen	Smith, Va.
Kilburn	Norblad	Snyder
King, N.Y.	Passman	Springer
Knox	Pelly	Stinson
Kunkel	Pilcher	Taft
Laird	Pillion	Talcott
Langen	Poage	Teague, Calif.
Latta	Poff	Teague, Tex.
Lennon	Pool	Thomson, Wis.
Lipscomb	Quie	Tuck
Lloyd	Quillen	Utt
McClory	Reid, Ill.	Van Pelt
McCulloch	Reifel	Watson
McIntire	Rhodes, Ariz.	Westland
McLoskey	Rich	Wharton
MacGregor	Roudebush	Whitten
Mahon	Rumsfeld	Wilson, Bob
Mailliard	St. George	Winstead
Marsh	Schadeberg	Wright
Martin, Calif.	Schneebeli	Wyman
Martin, Nebr.	Schweiker	Younger
Mathias	Schwengel	

NOT VOTING—6

Gubser	O'Brien, Ill.	St. Onge
Hosmer	Ryan, N.Y.	Whitener

So the bill was passed.

The Clerk announced the following pairs:

Mr. O'Brien of Illinois with Mr. Gubser.
Mr. Whitener with Mr. Hosmer.

[P. 17947]

EXTENSIONS OF REMARKS

A Balanced Budget—When?

EXTENSION OF REMARKS OF

HON. JOHN W. BYRNES

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Tuesday, September 24, 1963

Mr. BYRNES of Wisconsin. Mr. Speaker, the Secretary of the Treasury

[P. 17948]

has stated that the tax bill will enable us to achieve a balanced budget by 1967 or 1968. This prediction has been the source of numerous statements by proponents of this legislation that the bill represents sound fiscal policy. As the President himself has put it, a balanced budget "cannot be achieved without a substantial tax reduction and the greater national income it will produce."

Upon what facts, upon what analysis was the prediction of the Secretary of the Treasury based?

The plain facts are that it was based upon no facts; it was based upon no analysis; it was based upon a hope; it was based upon a wish; it was based upon a prayer.

Mr. St. Onge with Mr. Ryan of New York.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

EXTENSION OF REMARKS

Mr. MILLS. Mr. Speaker, I ask unanimous consent that all Members may include tables and extraneous matter in their remarks on H.R. 8363.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

GENERAL LEAVE TO EXTEND REMARKS

Mr. MILLS. Mr. Speaker, I ask unanimous consent that all Members who desire to do so may have 5 legislative days in which to extend their remarks on the bill just passed.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Ten days ago I wrote the Secretary of the Treasury stating that it was essential to this debate that the House know the estimates and assumptions he used in predicting budget balance by 1967 or 1968. I asked him specific questions which I felt went to the heart of the question as to whether it was wise to reduce taxes in the face of steadily increasing expenditures and large budget deficits. I place in the RECORD at this point a copy of my letter to the Secretary dated September 13, 1963:

SEPTEMBER 13, 1963.

HON. DOUGLAS DILLON,

Secretary of the Treasury, Department of the Treasury, Washington, D.C.

DEAR MR. SECRETARY: The major issue involved in the tax bill just reported by the Ways and Means Committee, as you know, is the wisdom of a large tax cut in the face of steadily increasing expenditures and large budget deficits. The administration's position, as expressed by you and others, is that the tax cut will stimulate the economy sufficiently to make up the revenue losses within a few years and result in a balanced budget. You recall telling the Ways and Means Committee, that you expected this stimulation to result in a balanced budget by 1967 or 1968.

Other observers have questioned this op-

timism. Dr. Arthur F. Burns, an eminent economist, for example, has expressed the view that, with expenditures increasing at or near the current rate and assuming a high rate of economic growth, the budget would not likely be in balance until sometime in the early 1970's, developing large deficits in the interim.

In less than 2 weeks, the House of Representatives will begin debate on the tax bill. It cannot do so intelligently, or responsibly, until the facts surrounding this key issue have been made public and scrutinized. For this reason, it is essential that the estimates and assumption upon which the administration bases its prediction of budget balance in 1967 or 1968 be made available for public study.

This information, at the minimum, should include:

1. Assuming enactment of the tax bill in its present form, the administration's estimates of the gross national product in both current and constant dollars for the years 1963 through the year for which a balanced budget is forecast, showing the annual rate of increase in gross national product for those years,

2. Since the estimates of increased growth in (1) represent the stimulation the administration predicts from passage of the tax cut and forms the basis for the increased Federal receipts which the administration claims are needed to balance the budget.

- a. The administration's estimate of Federal administrative budget receipts for each fiscal year until the budget is balanced, and

- b. The relationship of the administration's estimate of administrative budget receipts to its estimates of the gross national product and its major components under the new tax bill, comparing this relationship to the relationship of GNP and Federal receipts under the existing tax structure. This estimate of marginal and average tax "takes," under the new and existing tax structures, should be accompanied by the reasoning supporting the choice of data and method used.

3. The administration's estimates of Federal expenditures for each year until a balanced budget is achieved and the rationale for these assumed future expenditure estimates.

The above information should be readily available since the estimates requested would have had to be on hand in order to arrive at the forecast of budget balance in 1967 or 1968 which you have already made. I would hope and expect, therefore, that they will be made available to me sufficiently in advance of the opening of debate on the tax bill in the House on September 24 or 25 so they can be studied carefully and offered for the guidance of the House on this key issue.

Sincerely yours,

JOHN W. BYRNES.

Mr. Speaker, it will be noted that I asked for a reply sufficiently in advance of this debate so the estimates and assumptions could be studied carefully. I did not receive a reply until today, the day this debate began.

To say that I was surprised at the content of the Secretary's reply is to put

it mildly. I was astounded. For the substance of the Secretary's letter is that his prediction of an early balanced budget—the substance of the entire fiscal argument advanced by the administration—is based upon nothing more than a series of hopeful expectations, unsupported by concrete estimates which can be subjected to the test of reasonableness by this House.

I place in the RECORD at this point a copy of the Secretary's reply, dated September 23, 1963:

THE SECRETARY OF THE TREASURY,
Washington, D.C., September 23, 1963.
Hon. JOHN W. BYRNES,
House of Representatives,
Washington, D.C.

DEAR JOHN: In reply to your letter, I am glad of the opportunity to give you the reasoning behind my belief that enactment of H.R. 8363, coupled with the cooperation of the Congress in carrying out the President's program of firm expenditure control, should permit us to achieve a "balanced budget by 1967 or 1968," as you stated in your letter.

As you well know from the record of the past 15 years, it has not proved possible to estimate either revenues or expenditures with any precision for a period of 18 months into the future, the time period involved between the first submission of a budget by the President and the close of the fiscal year in question. This is natural because both expenditures and revenues depend on the course of future events, both domestic and international. Such an estimate looking not just 18 months, but nearly 5 years into the future might be an interesting exercise for academic economists, but for me, as Secretary of the Treasury, to set down detailed figures looking that far ahead would give an entirely false impression of the Government's ability to make exact predictions for long periods in the future. It could only serve to mislead and confuse the American people.

The impossibility of making detailed predictions about the future and the undesirability of doing so has been recognized by my predecessors. Thus you will recall that Secretary Humphrey in the hearings on the 1954 revenue bill declined for the same reason to make detailed predictions about future revenues. In 1953, Secretary Anderson took a similar position in testimony before the Ways and Means Committee.

I do, however, agree with you that it would be desirable to set forth the reasoning behind my belief that a balanced budget could be achieved by 1967 or 1968 or sooner.

First, as to revenues. As you point out they depend basically on the growth in our economy, which is most easily expressed by the growth of GNP. The record of the past 10 years has been erratic and marked by a number of recessions, because the burden of high wartime tax rates has consistently prevented the economy from reaching relatively full employment ever since 1957. Enactment of H.R. 8363 will remove this tax brake and usher in a period of steady and rapid growth that could lead us to reason-

ably full employment of our human and material resources within the next few years. Thus, contrary to our record of the past 10 years, enactment of H.R. 8363 should allow us to look forward to steady and rapid economic growth in the next few years. While this would be a new experience for the United States, it would merely duplicate the recent record of the industrialized countries of Western Europe.

This steady and rapid growth in our economy will naturally lead to greater revenues. However, this is not all. During the period when the economy is climbing rapidly toward full employment we can expect an increased portion of GNP to be translated into revenues. For example, the share of corporate profits in GNP can be expected to rise, returning in the next few years to the 10-percent level that has characterized periods of capacity operation, and which was exceeded in 1955. Since increases in corporate profits yield greater revenues than increases in personal income because of the higher tax rates that are applicable to corporations, the larger share of the corporate profits in GNP will increase our revenues. This increase will, of course, be even more pronounced than usual because of the effect of the acceleration of the payment of corporate taxes provided in H.R. 8363. Largely because of this increase in corporate income tax receipts, overall revenues during the next several years can be expected to grow more rapidly than would ordinarily be the case.

As to the expenditure side of the budget, the President has repeatedly stated that a tight rein will be maintained on Federal expenditures in order that the projected revenue increases flowing from the effects of H.R. 8363 on private earnings will be available for reduction and elimination of the transitional deficit. Under this program of firm expenditure control and with the cooperation of the Congress, it is my opinion that a balanced budget can readily be attained within the indicated period. Indeed, I believe that this is by far the most feasible path to budget balance.

I might add that the projections of Dr. Arthur F. Burns, whom you refer to in your letter as expressing the view that the budget would not likely be in balance until sometime in the early 1970's, assumed revenues increasing only at a constant rate and took no account of the revenue surge which can be expected to occur with the release of the private economy from the restraints imposed by our unreasonably high tax rates. Moreover, Dr. Burns assumed that expenditures would continue to increase at the rate of the past few years, which included a necessary and significant buildup in defense costs. This would, of course, not be the case under the program of firm expenditure control which the President intends to follow in cooperation with the Congress. If these two

[P. 17949]

factors were taken properly into account, then it is easy to see that we could arrive at a budget balance in 1967 or 1968 or sooner rather than the somewhat later period which Dr. Burns' original assumption led him to predict.

With best wishes.

Sincerely,

DOUGLAS DILLON.

It will be noted, first of all, that the Secretary refuses to estimate either future levels of revenue, if the tax bill is enacted, or future levels of spending, under what he calls the President's "tight rein on Federal expenditures."

This refusal comes somewhat late from a Secretary who, in order to predict a balanced budget by 1967 or 1968, would necessarily have had to make some kind of estimate of the two key elements in a balanced budget—what we take in and what we put out.

It is plain as day, if it is as impossible to estimate receipts and spending as the Secretary indicates, that his prediction of a balanced budget in the near future, as well as the whole burden of the Administration's fiscal argument, is worthless.

The Secretary goes beyond this, however. He even refuses to estimate what kind of a growth in the gross national product we might expect from the tax bill and he refuses to compare this expected growth rate with what we might expect without the tax bill. He merely states his belief that the enactment of the bill will "usher in a period of steady and rapid growth." What degree of growth will be achieved, whether it will be sufficient to provide the revenue to balance the budget, how reasonable is this vaguely magnificent assumption, these are factors completely disregarded by the Secretary.

It is regrettable, and tragic, that this House has not been furnished with the data supporting the claim that the tax reduction bill will result in a balanced budget within 3 to 4 years. It is disturbing—deeply disturbing—that the whole rationale of this bill is based upon nothing more than foggy claims unsupported by basic data which can be subject to the careful scrutiny of the Members of this body.

We must still ask: A balanced budget—when?

Republican Position on Tax Bill Distorted

EXTENSION OF REMARKS OF

HON. JOHN W. BYRNES

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Tuesday, September 24, 1963

Mr. BYRNES of Wisconsin. Mr. Speaker, it has come to my attention that misleading information is being used by the news media in regards to the Republican position on the current tax

bill. This information has even been included in a publication supposedly for use by sophisticated taxmen and businessmen. I refer to the Kiplinger Tax Letter of September 20, 1963. In this newsletter, the following appears:

The maneuvering over the tax bill is reaching fever pitch here. Most of the concern is over what will happen when it gets to Senate. House approval within the next few days is pretty much taken for granted. Republicans are not expected to succeed in getting the bill sent back to the Ways and Means Committee, which would assure a quiet death for it.

I am indeed surprised that the business community will pay for this type of reporting. As we all know, passage of a motion to recommit with instructions does not "kill" a bill. Under such circumstances the bill is not sent back to committee. To the contrary, it is passed on the floor with the changes as proposed in the recommittal motion at the conclusion of debate.

It would appear to me that anyone purporting to give an accurate accounting of the legislative process would be familiar with this vital fact. Therefore, I can only assume that such misinformation is being generated specifically to

create panic and fear with regard to the ultimate passage of the tax bill. Such misinformation undoubtedly could encourage some to oppose my motion to recommit because of their strong desire for a tax reduction. I, too, want a tax reduction and I am not proposing this motion to kill the bill.

I am proposing this motion because I feel that it is incumbent on us to impose some positive restraint on spending if we are to enact a tax cut in the amount of \$11 billion. If I wanted to kill the bill, as the Kiplinger Tax Letter seems to feel is my intent, I would not be offering a motion to recommit, which in my opinion will make it a better bill, but instead I would be urging my colleagues to simply vote against the bill on final passage. This I am not doing. In fact, when I appeared before the Rules Committee in their public hearings on this bill, I expressly stated that if the recommittal motion passed, I would take the floor and strongly urge passage of the bill.

I do not feel that the Congress or the American people should tolerate this type of news reporting. If there are those in the news field who are opposed to spending control, let them come out and so state.

SECTION 12
SUMMARY OF BILL AS PASSED BY THE
U.S. HOUSE OF REPRESENTATIVES

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**SUMMARY OF H.R. 8363, THE REVENUE
ACT OF 1963, AS PASSED BY THE U.S.
HOUSE OF REPRESENTATIVES**

**PART A
REDUCTION OF INCOME TAX RATES
AND RELATED AMENDMENTS**

**PREPARED FOR THE USE OF
THE COMMITTEE ON FINANCE
OF THE U.S. SENATE
BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION**



OCTOBER 1963

**U.S. GOVERNMENT PRINTING OFFICE
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CONTENTS

PART A

	Page
Title I. Reduction of rates.....	1
Part I. Individuals.....	1
Section 111. Individual income tax rates.....	1
Section 112. Minimum standard deduction.....	10
Section 113. Amendments related to individual income tax rate reductions (retirement income credit and nonresident aliens) ..	17
Part II. Corporations:	
Section 121. Corporation tax rates.....	18
Section 122. Current taxpayments by corporations.....	22
Section 123. Related amendments.....	26

III

TITLE I—REDUCTION OF RATES

PART I. INDIVIDUALS

SECTION 111. INDIVIDUAL INCOME TAX RATES

Reduction of marginal bracket rates

Under present law the individual income tax rates range from 20 percent on the first \$2,000 of taxable income of single persons (the first \$4,000 of taxable income of married couples) to 91 percent on taxable income over \$200,000 for single persons (over \$400,000 for married couples). However, under present law, in no event does the tax exceed 87 percent of the taxpayer's total taxable income for the year.

Under the bill the present law rates would be reduced for calendar year 1964 to a range of from 16 percent on the first \$500 of taxable income of single persons (the first \$1,000 of taxable income of married couples) to 77 percent on taxable income over \$200,000 for single persons (\$400,000 for married couples). For calendar year 1965 and thereafter the rates would be reduced to a range of from 14 percent on the first \$500 of taxable income of single persons (the first \$1,000 of taxable income of married couples) to 70 percent on taxable income over \$100,000 for single persons (over \$200,000 for married couples). H.R. 8363 does not provide for a limitation on tax comparable to that provided for under present law through the maximum tax rate applicable to the taxpayer's total taxable income.

Under these rates tax liability would be reduced by \$6.3 billion in calendar year 1964 and by \$9.5 billion in calendar year 1965. Thus, approximately two-thirds of the total tax rate reduction would become effective for calendar year 1964 with the full impact of the reduction being felt in calendar year 1965.

Table 1 sets forth in columns (3), (4), and (6) the individual income tax rates applicable to single persons and married couples filing joint returns under present law and under H.R. 8363. The bill also provides a rate schedule for heads of households with rates in effect approximately halfway between those applicable for single persons and for married couples filing joint returns.

Table 1 also shows in columns (5) and (7) the percentage reduction from present law rates of the rates set forth in H.R. 8363.

TABLE 1.—*Individual income tax rate schedules under present law and under H.R. 8363*

Taxable income bracket (thousands of dollars)		Under pres- ent law	Under H.R. 8363			
Single person	Married couple joint return		Calendar year 1964		Calendar year 1965	
			Rate	Percentage reduction from present law rate	Rate	Percentage reduction from present law rate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>	<i>Percent</i>
0 to 0.5-----	0 to 1-----	20	16.0	20.0	14	30.0
0.5 to 1-----	1 to 2-----	20	16.5	17.5	15	25.0
1 to 1.5-----	2 to 3-----	20	17.5	12.5	16	20.0
1.5 to 2-----	3 to 4-----	20	18.0	10.0	17	15.0
2 to 4-----	4 to 8-----	22	20.0	9.1	19	13.6
4 to 6-----	8 to 12-----	26	23.5	9.6	22	15.4
6 to 8-----	12 to 16-----	30	27.0	10.0	25	16.7
8 to 10-----	16 to 20-----	34	30.5	10.3	28	17.6
10 to 12-----	20 to 24-----	38	34.0	10.5	32	15.8
12 to 14-----	24 to 28-----	43	37.5	12.8	36	16.3
14 to 16-----	28 to 32-----	47	41.0	12.8	39	17.0
16 to 18-----	32 to 36-----	50	44.5	11.0	42	16.0
18 to 20-----	36 to 40-----	53	47.5	10.4	45	15.1
20 to 22-----	40 to 44-----	56	50.5	9.8	48	14.3
22 to 26-----	44 to 52-----	59	53.5	9.3	50	15.3
26 to 32-----	52 to 64-----	62	56.0	9.7	53	14.5
32 to 38-----	64 to 76-----	65	58.5	10.0	55	15.4
38 to 44-----	76 to 88-----	69	61.0	11.6	58	15.9
44 to 50-----	88 to 100-----	72	63.5	11.8	60	16.7
50 to 60-----	100 to 120-----	75	66.0	12.0	62	17.3
60 to 70-----	120 to 140-----	78	68.5	12.2	64	17.9
70 to 80-----	140 to 160-----	81	71.0	12.3	66	18.5
80 to 90-----	160 to 180-----	84	73.5	12.5	68	19.0
90 to 100-----	180 to 200-----	87	75.0	13.8	69	20.7
100 to 150-----	200 to 300-----	89	76.5	14.0	70	21.3
150 to 200-----	300 to 400-----	90	76.5	15.0	70	22.2
Over 200-----	Over 400-----	91	77.0	15.4	70	23.1

This table indicates in column (7) that, when fully effective in 1965, the new rates under H.R. 8363 would represent a 30-percent reduction in the rate applicable to the first \$500 of taxable income (the first \$1,000 for a married couple); a 25-percent reduction in the rate applicable to the \$500 to \$1,000 bracket (\$1,000 to \$2,000 for a married couple); and a 20-percent reduction in the rate applicable to the \$1,000 to \$1,500 bracket (\$2,000 to \$3,000 for a married couple). For brackets above this \$1,000 to \$1,500 taxable income bracket (\$2,000 to \$3,000 for a married couple) the percentage reduction in the tax rate ranges between 13.6 and 17.6 percent until the \$60,000 to \$70,000 bracket (\$120,000 to \$140,000 for a married couple) is reached, with the departure from a uniform 15 percent due to the use of whole percentages and smoothness in the progression of the new tax rates. In brackets above \$60,000 of taxable income (\$120,000 for married couples) the percentage reductions in the bracket rates increase until the top rate under present law is reached on taxable incomes over \$200,000 (over \$400,000 for married couples) where a 23-percent rate is provided.

This rate schedule, therefore, provides a basic reduction of approximately 15 percent for all tax brackets and, in addition, it provides extra reductions in the lowest and highest tax brackets.

The overall percentage reduction in tax provided by the tax rates effective in 1965 under H.R. 8363 is 20 percent.

Alteration of tax brackets

As may be seen in table 1, the taxable income brackets provided in the tax rate schedules under H.R. 8363 are the same as those under present law except for the lowest and highest income brackets. The bill divides the first present law taxable income bracket into four brackets and eliminates the two top present law taxable income brackets.

Thus, the first four brackets under H.R. 8363 are as follows:

Taxable income bracket (thousands)		Tax rate, 1965 (percent)
Single person	Married couple	
0 to \$0.5	0 to \$1	14
\$0.5 to \$1	\$1 to \$2	15
\$1 to \$1.5	\$2 to \$3	16
\$1.5 to \$2	\$3 to \$4	17

The married taxpayer filing a joint return and having taxable income of \$1,000 would pay a tax at the 14-percent rate, or \$140; the taxpayer with taxable income of \$2,000 would pay a tax at the 14-percent rate on the first \$1,000 and at the 15-percent rate on the second \$1,000, or at the average rate of 14.5 percent on the \$2,000, for a total tax of \$290; the taxpayer with taxable income of \$3,000 would pay tax at an average rate of 15 percent on the \$3,000, or a total tax of \$450; and the taxpayer with taxable income of \$4,000 would pay a tax at the rate of 14 percent on the first \$1,000, 15 percent on the second \$1,000, 16 percent on the third \$1,000, and 17 percent on the fourth \$1,000, or at the average rate of 15.5 percent on the \$4,000, for a total tax of \$620.

To get a measure of the impact of the four-way split in the first bracket it might be compared with the impact of an unsplit first bracket and the impact of a two-way split first bracket.

Thus, if, instead of splitting the present law first taxable income bracket into four brackets, the average rate for the four brackets (15.5 percent) were made applicable to the first \$2,000 of taxable income of single persons (the first \$4,000 of taxable income of married couples), the tax liability of the married taxpayer filing a joint return would be as follows as compared to the tax liability under the four-way split.

Taxable income	Tax liability	
	With 1st bracket split 4 ways	Without splitting 1st bracket
\$1,000	\$140	\$155
\$2,000	290	310
\$3,000	450	465
\$4,000	620	620

If the present law first bracket were split into two brackets 0 to \$1,000 and \$1,000 to \$2,000 for single taxpayers (0 to \$2,000 and \$2,000 to \$4,000 for married couples) with a 15-percent rate applicable to the first \$1,000 (the first \$2,000 for married couples) and a 17-percent rate applicable to the second \$1,000 (\$2,000 for married couples), the tax liability of the married taxpayer filing a joint return would be as follows as compared to the four-way split:

Taxable income	Tax liability	
	With 1st bracket split 4 ways	With 2-way split of 1st bracket
\$1,000-----	\$140	\$150
\$2,000-----	290	300
\$3,000-----	450	470
\$4,000-----	620	640

Elimination in H.R. 8363 of the two top brackets in the tax rate schedule has the effect in 1965 of terminating the progression in bracket tax rates at taxable income over \$100,000 for single persons (\$200,000 for married couples). Thus, under the bill, all taxable income over \$100,000 is taxed at 70 percent. Under present law taxable income of over \$100,000 is divided into three brackets and rates of 89 percent, 90 percent, and 91 percent, respectively, apply.

Reduction of tax liability on taxable income

Table 1 deals with taxable income and deals with this taxable income in the form of tax brackets. Through use of tax brackets table 1 shows the rate of tax applicable to each of the several slices of income into which the taxpayer's taxable income may be divided for purposes of applying progressively higher tax rates. Therefore, this table does not show the tax rate applicable to the total taxable income of any taxpayer except those whose total taxable income falls in the first bracket. Thus, the rate reductions found in table 1 reflect, for the taxable income levels represented by a given bracket, only the marginal rate reduction. From the standpoint of the reduction in the taxpayer's total tax burden, however, all taxpayers benefit not only from the rate reduction in their top bracket but also from the rate reduction in all of the tax brackets below their top, or marginal, bracket. Tables 2-A and 2-B show the total benefit of the rate reductions for taxpayers with amounts of total taxable income ranging from \$500 to \$200,000 in the case of single taxpayers and from \$1,000 to \$400,000 in the case of married couples.

TABLE 2-A.—*Individual income tax liability under present law tax rates and under H.R. 8363 tax rates, 1965*

[Selected levels of taxable income—Upper limit of present law and H.R. 8363 brackets]

SINGLE PERSON

Taxable income (1)	Under present law (2)	Under H.R. 8363		
		Tax (3)	Reduction	
			Amount (4)	Percent (5)
\$500.....	\$100	\$70	\$30	30.0
\$1,000.....	200	145	55	27.5
\$1,500.....	300	225	75	25.0
\$2,000.....	400	310	90	22.5
\$4,000.....	840	690	150	17.9
\$6,000.....	1,360	1,130	230	16.9
\$8,000.....	1,960	1,630	330	16.8
\$10,000.....	2,640	2,190	450	17.0
\$12,000.....	3,400	2,830	570	16.8
\$14,000.....	4,260	3,550	710	16.7
\$16,000.....	5,200	4,330	870	16.7
\$18,000.....	6,200	5,170	1,030	16.6
\$20,000.....	7,260	6,070	1,190	16.4
\$22,000.....	8,380	7,030	1,350	16.1
\$26,000.....	10,740	9,030	1,710	15.9
\$32,000.....	14,460	12,210	2,250	15.6
\$38,000.....	18,360	15,510	2,850	15.5
\$44,000.....	22,500	18,990	3,510	15.6
\$50,000.....	26,820	22,590	4,230	15.8
\$60,000.....	34,320	28,790	5,530	16.1
\$70,000.....	42,120	35,190	6,930	16.5
\$80,000.....	50,220	41,790	8,430	16.8
\$90,000.....	58,620	48,590	10,030	17.1
\$100,000.....	67,320	55,490	11,830	17.6
\$150,000.....	111,820	90,490	21,330	19.1
\$200,000.....	156,820	125,490	31,330	20.0

TABLE 2-B.—*Individual income tax liability under present law tax rates and under H.R. 8363 tax rates, 1965*

[Selected levels of taxable income—Upper limit of present law and H.R. 8363 brackets]

MARRIED COUPLE, JOINT RETURN

Taxable income (1)	Under present law (2)	Under H.R. 8363		
		Tax (3)	Reduction	
			Amount (4)	Percent (5)
\$1,000-----	\$200	\$140	\$60	30.0
\$2,000-----	400	290	110	27.5
\$3,000-----	600	450	150	25.0
\$4,000-----	800	620	180	22.5
\$8,000-----	1,680	1,380	300	17.9
\$12,000-----	2,720	2,260	460	16.9
\$16,000-----	3,920	3,260	660	16.8
\$20,000-----	5,280	4,380	900	17.0
\$24,000-----	6,800	5,660	1,140	16.8
\$28,000-----	8,520	7,100	1,420	16.7
\$32,000-----	10,400	8,660	1,740	16.7
\$36,000-----	12,400	10,340	2,060	16.6
\$40,000-----	14,520	12,140	2,380	16.4
\$44,000-----	16,760	14,060	2,700	16.1
\$52,000-----	21,480	18,060	3,420	15.9
\$64,000-----	28,920	24,420	4,500	15.6
\$76,000-----	36,720	31,020	5,700	15.5
\$88,000-----	45,000	37,980	7,020	15.6
\$100,000-----	53,640	45,180	8,460	15.8
\$120,000-----	68,640	57,580	11,060	16.1
\$140,000-----	84,240	70,380	13,860	16.5
\$160,000-----	100,440	83,580	16,860	16.8
\$180,000-----	117,240	97,180	20,060	17.1
\$200,000-----	134,640	110,980	23,660	17.6
\$300,000-----	223,640	180,980	42,660	19.1
\$400,000-----	313,640	250,980	62,660	20.0

These tables reflect the tax rate applicable to the taxpayer's total taxable income and, thus, the accumulative effect of the rate reductions provided by H.R. 8363. The taxable income levels for which the tax rates, the tax reductions, and the percentage tax reductions are shown in these tables are the upper limits of the rate brackets—both for single persons (table 2-A) and for married couples (table 2-B).

Thus, while table 1 indicates a 15.1-percent tax rate reduction under H.R. 8363 in 1965 on the \$18,000 to \$20,000 portion of a single person's taxable income, table 2-A shows that the single person whose taxable income totals \$20,000 would have a 16.4-percent tax reduction on that \$20,000 taxable income. The percentage reductions would be the same for the married couple with taxable income of \$40,000: Table 1 indicates a 15.1-percent tax rate reduction on the \$36,000 to \$40,000 portion of the married couple's taxable income; table 2-B shows a 16.4-percent tax reduction on the whole \$40,000 taxable income.

For the single person with taxable income of \$200,000 and the married couple with taxable income of \$400,000 the situation would be the reverse of the above example. The top bracket of their taxable

income (\$150,000 to \$200,000 for the single person, \$300,000 to \$400,000 for the married couple) would receive a rate reduction of 22.2 percent as shown in column (7) of table 1; their overall tax reduction on their total taxable income (\$200,000 for the single person and \$400,000 for the married couple) would equal 20 percent as set forth in column (5) of tables 2-A and 2-B. This is because of the dilution of the higher percentage reductions on the top brackets of the taxpayer's taxable income by the lower percentage reductions on the intermediate brackets of his income.

Reduction of tax liability on adjusted gross income

As indicated above, tables 2-A and 2-B show the tax liability under present law and under H.R. 8363 associated with given levels of taxable income, that is, the income subject to tax which is left after all exclusions and deductions provided for by law, including deductions for personal exemptions.

For tax liability as related to income after exclusions and business deductions but before nonbusiness deductions and personal exemptions, that is, "adjusted gross income," see tables 3-A and 3-B.

TABLE 3-A.—Individual income tax liability under present law tax rates and under H.R. 8363 tax rates, 1965

SELECTED LEVELS OF ADJUSTED GROSS INCOME				
Adjusted gross income (wages and salaries) (1)	Under present law (2)	Under H.R. 8363		
		Tax (3)	Reduction	
			Amount (4)	Percent (5)
Single person, with standard deduction as under present law				
\$1,000-----	\$62	\$44	\$18	29.0
\$2,000-----	242	179	63	26.0
\$3,000-----	427	333	94	22.0
\$5,000-----	818	671	147	18.0
\$7,500-----	1,405	1,165	237	16.9
\$10,000-----	2,096	1,742	354	16.9
\$15,000-----	4,002	3,334	668	16.7
\$20,000-----	6,412	5,350	1,062	16.6
\$25,000-----	9,206	7,730	1,476	16.0
\$50,000-----	25,668	21,630	4,038	15.7
Single person, with itemized deductions as under present law ¹				
\$1,000-----	\$30	\$21	\$9	30.0
\$2,000-----	180	130	50	27.8
\$3,000-----	343	262	81	23.6
\$5,000-----	708	576	132	18.6
\$7,500-----	1,204	998	206	17.1
\$10,000-----	1,759	1,463	296	16.8
\$15,000-----	3,172	2,638	534	16.8
\$20,000-----	5,012	4,174	838	16.7
\$25,000-----	7,141	5,969	1,172	16.4
\$50,000-----	19,533	16,496	3,037	15.5

¹ Using 1960 average for each designated adjusted gross income level respectively.

TABLE 3-B.—*Individual income tax liability under present law tax rates and under H.R. 8363 tax rates, 1965*

SELECTED LEVELS OF ADJUSTED GROSS INCOME

Adjusted gross income (wages and salaries) (1)	Under present law (2)	Under H.R. 8363		
		Tax (3)	Reduction	
			Amount (4)	Percent (5)
Married couple, 2 dependents, with standard deduction as under present law				
\$1,000-----				
\$2,000-----				
\$3,000-----	\$65	\$45	\$20	30.8
\$5,000-----	420	306	114	27.1
\$7,500-----	877	687	190	21.7
\$10,000-----	1,372	1,114	258	18.8
\$15,000-----	2,616	2,172	444	17.0
\$20,000-----	4,124	3,428	696	16.9
\$25,000-----	5,888	4,892	996	16.9
\$50,000-----	18,294	15,360	2,934	16.0
Married couple, 2 dependents, with itemized deductions as under present law ¹				
\$1,000-----				
\$2,000-----				
\$3,000-----				
\$5,000-----	\$310	\$223	\$87	28.1
\$7,500-----	730	561	169	23.2
\$10,000-----	1,200	965	235	19.6
\$15,000-----	2,229	1,844	385	17.3
\$20,000-----	3,500	2,910	590	16.9
\$25,000-----	4,766	3,956	810	17.0
\$50,000-----	14,660	12,260	2,400	16.4

¹ Using 1960 average for each designated adjusted gross income level respectively.

Table 3-A shows for a wage-or-salary-earning single person, first with standard deduction and then with itemized deductions, the difference in tax burden on selected levels of adjusted gross income ascribable to the tax rate schedules under present law and under H.R. 8363. Table 3-B presents similar data for the married couple with two dependents filing a joint return. It should be noted that tables 3-A and 3-B are concerned only with the impact of changes in the tax rates. The data in these tables assume the present law tax structure so as to isolate the impact of the tax rate changes on the taxpayer. Thus, for example, in tables 3-A and 3-B standard and itemized deductions are assumed to be as under present law.

Within the range of the adjusted gross income levels shown in these tables the percentage of tax reduction decreases with the size of the taxpayer's adjusted gross income.

Reduction of tax liability by adjusted gross income class

If the data in tables 3-A and 3-B were generalized so as to show the impact on all taxpayers of the tax rate reductions provided for in H.R. 8363 for 1965, the results would be as set forth in table 4. This table shows by adjusted gross income class the amount and the percentage of tax reduction effected by the bill.

TABLE 4.—*Effect on tax liability of individual income tax rate reduction under H.R. 8363*

[By adjusted gross income class, 1965]

Adjusted gross income (thousands) (1)	Tax liability under present law ¹ (millions) (2)	Reduction of tax liability under H.R. 8363	
		Amount (millions) (3)	Percent (4)
Under \$3.....	\$1, 450	\$400	27. 6
\$3 to \$5.....	4, 030	1, 020	25. 3
\$5 to \$10.....	18, 300	3, 905	21. 3
\$10 to \$20.....	12, 710	2, 285	18. 0
\$20 to \$50.....	6, 760	1, 150	17. 0
\$50 and over.....	4, 170	710	17. 0
Total.....	47, 420	9, 470	20. 0

¹ After tax credits; excludes \$1.2 billion alternative tax on capital gains.

Thus, taxpayers with adjusted gross income under \$3,000 who have a combined tax liability of \$1.45 billion under present law would have their tax liability reduced by \$400 million, or 27.6 percent, under the reduced tax rates of H.R. 8363. Taxpayers with adjusted gross income of \$5,000 to \$10,000 would have their combined tax liability of \$18.3 billion reduced by \$3.9 billion, or 21.3 percent; and taxpayers with adjusted gross income of \$50,000 and over would have their combined tax liability of \$4.17 billion reduced by \$710 million, or 17 percent. All taxpayers with a combined tax liability of \$47.42 billion would have their taxes reduced by \$9.47 billion for an overall average percentage reduction of 20 percent.

Withholding tax rates

The withholding tax rate of 18 percent under present law would be reduced to 15 percent for the calendar year 1964 and to 14 percent for 1965 and subsequent years.

Effective date

The tax rate reductions described above would take effect as of January 1, 1964, and January 1, 1965. For taxpayers with taxable years beginning in 1963 and ending in 1964 and beginning in 1964 and ending in 1965, H.R. 8363 provides for the proration of the rates applicable in the years involved, according to the number of days in the fiscal year in question which falls in each calendar year.

SECTION 112. MINIMUM STANDARD DEDUCTION

THE STANDARD DEDUCTION UNDER PRESENT LAW

Under present law, to compute taxable income, a taxpayer subtracts the value of his exemptions and the amount of his nonbusiness deductions from his adjusted gross income. The taxpayer may itemize these nonbusiness deductions to determine the total amount or he may elect the standard deduction. The standard deduction under present law is an amount equal to 10 percent of the adjusted gross income or \$1,000, whichever is the lesser, except that in the case of a separate return by a married individual the standard deduction may not exceed \$500. In the case of taxpayers whose adjusted gross income is less than \$5,000 the election of the standard deduction is made by choosing to pay the tax imposed by the optional tax table in section 3 of the Internal Revenue Code. An amount equal to approximately 10 percent of adjusted gross income and an amount for the relevant number of exemptions are automatically allowed for each adjusted gross income class in the tax table.

The extent to which the standard deduction and exemption allowances under present law render incomes nontaxable is shown in column (2) of table 1 for selected categories of taxpayers.

TABLE 1.—*Nontaxable levels of adjusted gross income, by marital and exemption status of taxpayer, under standard deduction provision of present law and of H.R. 8363, 1965*

Status of taxpayer (1)	Present law (2)	H.R. 8363 (3)
Single person.....	Less than \$675.....	Less than \$900.
Married couple, no dependents, or head of household, 1 dependent.	Less than \$1,325.....	Less than \$1,600.
Married couple, 1 dependent, or head of household, 2 dependents.	Less than \$2,000.....	Less than \$2,300.
Married couple, 2 dependents, or head of household, 3 dependents.	Less than \$2,675.....	Less than \$3,000.
Married couple, 3 dependents, or head of household, 4 dependents.	Less than \$3,350.....	Less than \$3,700.
Married couple, 4 dependents, or head of household, 5 dependents.	Less than \$4,000.....	Less than \$4,400.
Married couple, 5 dependents, or head of household, 6 dependents.	Less than \$4,650.....	At or below \$5,100.
Married couple, 6 dependents, or head of household, 7 dependents.	At or below \$5,333.....	At or below \$5,800.

Under present law, single taxpayers who take the standard deduction, if they have no dependents, pay no tax on incomes of less than \$675. This figure, drawn from the optional tax table, roughly approximates the sum of a \$600 personal exemption and a standard deduction of 10 percent (\$67.50). For married couples filing joint returns, under present law income is nontaxable unless it equals or exceeds \$1,325. This represents the approximate sum of a 10-percent standard deduction (\$132.50) and two \$600 exemptions. Similarly, a married couple with one child becomes taxable on income of \$2,000 (an

amount just equal to a standard deduction of \$200 plus three \$600 exemptions).

The amount of tax liability under present law, for selected income levels, in cases in which the income exceeds the allowance for exemptions and standard deduction is shown in column (2) of table 2-A and in column (2) of table 2-B. Table 2-A deals with single persons and table 2-B deals with married couples with two dependents.

TABLE 2-A.—*Impact of individual income tax rate schedule and standard deduction provision under present law, and under H.R. 8363 excluding and including minimum standard deduction provision, 1965—Single person*

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363					
		Excluding minimum standard deduction provision			Including minimum standard deduction provision		
		Tax	Reduction		Tax	Reduction	
			Amount	Percent		Amount	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
\$1,000	\$62	\$44	\$18	29.0	\$16	\$46	74.2
\$2,000	242	179	63	26.0	163	79	32.6
\$3,000	427	333	94	22.0	333	94	22.0
\$5,000	818	671	147	18.0	671	147	18.0
\$7,500	1,405	1,168	237	16.9	1,168	237	16.9
\$10,000	2,096	1,742	354	16.9	1,742	354	16.9
\$15,000	4,002	3,334	668	16.7	3,334	668	16.7
\$20,000	6,412	5,350	1,062	16.6	5,350	1,062	16.6
\$25,000	9,206	7,730	1,476	16.0	7,730	1,476	16.0
\$50,000	25,668	21,630	4,038	15.7	21,630	4,038	15.7

Source: Staff of the Joint Committee on Internal Revenue Taxation.

TABLE 2-B.—*Impact of individual income tax rate schedule and standard deduction provision under present law, and under H.R. 8363 excluding and including minimum standard deduction provision, 1965—Married couple, 2 dependents*

Adjusted gross income (wages and salaries)	Under present law	Under H.R. 8363					
		Excluding minimum standard deduction provision			Including minimum standard deduction provision		
		Tax	Reduction		Tax	Reduction	
			Amount	Percent		Amount	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
\$1,000							
\$2,000							
\$3,000	\$65	\$45	\$20	30.8	\$4	\$61	93.8
\$5,000	420	306	114	27.1	290	130	31.0
\$7,500	877	687	190	21.7	687	190	21.7
\$10,000	1,372	1,114	258	18.8	1,114	258	18.8
\$15,000	2,616	2,172	444	17.0	2,172	444	17.0
\$20,000	4,124	3,428	696	16.9	3,428	696	16.9
\$25,000	5,888	4,892	996	16.9	4,892	996	16.9
\$50,000	18,294	15,360	2,934	16.0	15,360	2,934	16.0

As the income of the single person using the standard deduction ranges from \$1,000 to \$50,000 the tax liability ranges from \$62 to \$25,668; as the income of the married couple with two dependents using the standard deduction ranges from \$3,000 to \$50,000 the tax liability ranges from \$65 to \$18,294.

THE STANDARD DEDUCTION UNDER H.R. 8363

(a) Explanation

Under section 112 of H.R. 8363 the standard deduction is the larger of the 10-percent standard deduction described above or a minimum standard deduction. As under present law, the standard deduction under H.R. 8363 may not exceed \$1,000, or \$500 in the case of a separate return by a married individual.

Also, as under present law, the 10-percent standard deduction is an amount equal to 10 percent of the adjusted gross income.

The minimum standard deduction provided for in H.R. 8363 is the sum of two amounts. The first amount is determined by multiplying by \$100 the number of exemptions allowed the taxpayer; the second amount is \$200 for a husband and wife filing a joint return, \$200 for an unmarried individual, and \$100 for a married individual filing a separate return.

Thus, under H.R. 8363 the minimum standard deduction for a married individual filing a separate return would be \$200;¹ for a single person it would be \$300; for a married couple with no dependents filing a joint return the minimum standard deduction would be \$400; and for a married couple, with two dependents, filing a joint return, the minimum standard deduction would be \$600. The value of the minimum standard deduction per exemption would vary inversely, therefore, with the number of exemptions. To illustrate, in the case of single returns, head of household returns, and joint returns of married couples, the value of the minimum standard deduction per exemption would be as follows:

Number of exemptions	Value of minimum standard deduction		Number of exemptions	Value of minimum standard deduction	
	Total	Per exemption		Total	Per exemption
1.....	\$300	\$300	6.....	\$800	\$133
2.....	400	200	7.....	900	129
3.....	500	167	8.....	1,000	125
4.....	600	150	9.....	1,000	111
5.....	700	140	10.....	1,000	100

In order to compare these values of the minimum standard deduction per exemption with the values of the 10-percent standard deduction per exemption it is necessary to bring into the picture the amount of adjusted gross income against which the 10-percent standard deduction is measured. Table 3 shows, for various adjusted gross income levels and numbers of exemptions, the additional value per exemption deriving from use of the minimum standard deduction as compared to the 10-percent standard deduction.

¹ In the case of married individuals filing separate returns, where one takes the 10-percent standard deduction, rather than the minimum standard deduction, the other spouse must also take the 10-percent standard deduction. However, both may elect to take the minimum standard deduction.

TABLE 3.—Additional value per exemption of the standard deduction provision of H.R. 8363¹ over the standard deduction provision of present law, by level of adjusted gross income and number of exemptions

Number of exemptions (1)	Adjusted gross income									
	\$1,000 (2)	\$2,000 (3)	\$3,000 (4)	\$4,000 (5)	\$5,000 (6)	\$6,000 (7)	\$7,000 (8)	\$8,000 (9)	\$9,000 (10)	\$10,000 (11)
1.....	\$200	\$100	0	0	0	0	0	0	0	0
2.....	(2)	100	\$50.00	0	0	0	0	0	0	0
3.....	(2)	³ 100	66.67	\$33.33	0	0	0	0	0	0
4.....	(2)	(2)	75.00	50.00	\$25.00	0	0	0	0	0
5.....	(2)	(2)	(2)	60.00	40.00	\$20.00	0	0	0	0
6.....	(2)	(2)	(2)	³ 66.67	50.00	33.33	\$16.67	0	0	0
7.....	(2)	(2)	(2)	(2)	57.14	42.86	28.57	\$14.29	0	0
8.....	(2)	(2)	(2)	(2)	(2)	50.00	37.50	25.00	\$12.50	0
9.....	(2)	(2)	(2)	(2)	(2)	(2)	33.33	22.22	11.11	0
10.....	(2)	(2)	(2)	(2)	(2)	(2)	30.00	20.00	10.00	0

¹ In the case of joint returns of husbands and wives and returns of unmarried individuals; in the case of married individuals filing separate returns the additional values would be less than those shown in this table.

² This additional value has been omitted because it would have no tax significance; the indicated combination of income and exemptions with the standard deduction under present law is nontaxable.

³ This additional value would have limited tax significance since it greatly exceeds the amount required to eliminate the tax.

Thus, as indicated in table 3, the impact of the minimum standard deduction would be the equivalent of an additional \$200 exemption allowance for the single taxpayer, using the present law standard deduction, with \$1,000 of adjusted gross income. It would be equivalent to an additional \$100 allowance per exemption in returns (other than separate returns) with \$2,000 of adjusted gross income. In the \$3,000 return it would be equivalent to an additional exemption allowance of \$50, \$66.67, or \$75, per exemption, where the exemptions total two, three, or four, respectively. In the \$9,000 return, the minimum standard deduction would be the equivalent of an additional \$12.50, \$11.11, or \$10 exemption allowance per exemption as the number of exemptions increase from 8 to 9 to 10, respectively.

For taxpayers who under present law do not use the 10-percent standard deduction, but itemize their deductions, the additional values (if any) derivable from use of the minimum standard deduction would be less than those shown in table 3.

The data in table 3 might be summarized by noting that use of the minimum standard deduction is equivalent to an increased exemption allowance which decreases in amount per exemption as adjusted gross income increases; and increases in amount per exemption as the number of exemptions increases until the minimum standard deduction reaches its allowable maximum.

Under H.R. 8363 the single person's minimum standard deduction of \$300, taken in conjunction with his personal exemption of \$600, would mean that he would have no tax to pay until his adjusted gross income equaled \$900. Similarly, the \$400 minimum standard deduction of a married couple with no children when combined with their \$1,200 personal exemption would render them nontaxable until their adjusted gross income equaled \$1,600. A head of a household with one dependent also would be subject to tax only on income at or above \$1,600. A married couple, both over age 65, with no dependents, would have a minimum standard deduction of \$600, i.e., \$200

plus an additional \$100 for each of their four exemptions. This together with their \$2,400 of exemptions would mean that they pay no tax until their income reaches \$3,000. This would also be true of a blind married couple under age 65.

The extent to which the standard deduction provisions of H.R. 8363, coupled with the exemption allowances under present law (which are not changed by the bill), render incomes nontaxable for selected categories of taxpayers is shown in column (3) of table 1.

The amount of tax liability under H.R. 8363, for selected income levels, in cases in which the income exceeds the allowance for exemptions and standard deduction is shown for single persons in column (6) of table 2-A and for married couples with two dependents in column (6) of table 2-B.

Under H.R. 8363 as the income of the single person using the standard deduction ranges from \$1,000 to \$50,000 the tax liability ranges from \$16 to \$21,630; as the income of the married couple with two dependents ranges from \$3,000 to \$50,000 the tax liability ranges from \$4 to \$15,360.

Columns (7) and (8) of tables 2-A and 2-B show the amount and percentage by which the tax rate provisions and standard deduction provisions of H.R. 8363 reduce the tax burden imposed under the tax rate and standard deduction provisions of present law. Thus, the single person with a \$2,000 adjusted gross income has a tax liability of \$242 under present law tax rates and standard deduction but a tax liability of \$163 under the rate and standard deduction provisions of H.R. 8363—a reduction of \$79 or 32.6 percent. The single person with a \$10,000 income would have his tax reduced from \$2,096 to \$1,742, a reduction of \$354 or 16.9 percent. The married couple with two dependents and a \$3,000 income would have their tax reduced from \$65 to \$4, a reduction of \$61 or 93.8 percent. The \$10,000 family would have their tax reduced from \$1,372 to \$1,114, a reduction of \$258 or 18.8 percent. Thus, within the range of the income levels in tables 2-A and 2-B, the lower the income the greater the percentage tax reduction resulting from the rate reductions and the minimum standard deduction provisions of H.R. 8363.

A comparison of column (3) with column (6) in table 2-A provides, in the case of single persons, a measure of the significance of the minimum standard deduction under H.R. 8363 for taxpayers with selected amounts of adjusted gross income. Thus, the single person with adjusted gross income of \$1,000 would have a tax liability of \$44 under H.R. 8363 tax rates but without the minimum standard deduction. With application of the minimum standard deduction the tax liability would become \$16. Thus, \$28 of the tax savings are ascribable to the minimum standard deduction. Similarly, the single person with a \$2,000 income would save an additional \$16 because of the minimum standard deduction. For single persons with adjusted gross income of \$3,000 or more the minimum standard deduction would offer no advantage over the 10-percent standard deduction.

Columns (3) and (6) in table 2-B illustrate the impact of the minimum standard deduction on the tax liability of married couples with two dependents. Such married couples with adjusted gross income of \$3,000 would have their tax liabilities further reduced by an additional \$41 over and above the \$20 reduction provided by the tax rates of H.R. 8363. The \$5,000 income would enjoy an additional

reduction of \$16 over that provided by the rate reduction. The minimum standard deduction would represent no advantage over the 10-percent standard deduction for married couples with two dependents and \$6,000 or more of adjusted gross income.

For the range of incomes within which the minimum standard deduction would offer a tax advantage over the 10-percent standard deduction, see table 4.

TABLE 4.—Range of adjusted gross income under H.R. 8363 within which the minimum standard deduction effects tax savings over the 10-percent standard deduction, by marital and exemption status of taxpayer, 1965

Status of taxpayer	Range of adjusted gross income advantaged by minimum standard deduction
Single person.....	\$675-\$3,000
Married couple, no dependents, or head of household, 1 dependent.....	1,325- 4,000
Married couple, 1 dependent, or head of household, 2 dependents.....	2,000- 5,000
Married couple, 2 dependents, or head of household, 3 dependents.....	2,675- 6,000
Married couple, 3 dependents, or head of household, 4 dependents.....	3,350- 7,000
Married couple, 4 dependents, or head of household, 5 dependents.....	4,000- 8,000
Married couple, 5 dependents, or head of household, 6 dependents.....	4,650- 9,000
Married couple, 6 dependents, or head of household, 7 dependents.....	5,333-10,000

As indicated in this table, the minimum standard deduction would prove a tax saver for single persons with adjusted gross income of \$675 to \$3,000; for married couples with no dependents with adjusted gross income of \$1,325 to \$4,000; for married couples with two dependents with adjusted gross income of \$2,675 to \$6,000, and so forth.

Also, some taxpayers who itemize their deductions under present law would benefit by the minimum standard deduction provided for in H.R. 8363. Those taxpayers would benefit whose itemized deductions would exceed the 10-percent standard deduction but would fall short of the minimum standard deduction.

(b) *Effective date*

Generally, the standard deduction provisions of H.R. 8363 apply to taxable years ending after December 31, 1963. However, for individuals whose taxable year begins in 1963 and ends in 1964, H.R. 8363 provides for a portion of the benefits of the minimum standard deduction, as is the case with rate reduction, in accordance with the number of days in the taxable year which fall before and after December 31, 1963.

(c) *Revenue effect*

The minimum standard deduction is estimated to reduce tax liability in calendar year 1965 by \$320 million and to remove 1.5 million taxpayers from the tax rolls.

As indicated in tables 3 and 4, the tax reduction provided by the minimum standard deduction would be concentrated among taxpayers with smaller amounts of adjusted gross income.

Table 5 shows, in column (5), the distribution of the \$320 million reduction by adjusted gross income class. It also shows, in column (6), the percentage reduction from present law tax liability which would result from the minimum standard deduction.

TABLE 5.—*Effect on tax liability of individual income tax rate reduction and minimum standard deduction provision under H.R. 8363, by adjusted gross income class, 1965*

Adjusted gross income (thousands)	Tax liabil- ity under present law ¹ (millions)	Reduction of tax liability under H.R. 8363					
		Under tax rate reduction provision		Under minimum standard deduc- tion provision		Under tax rate reduction and minimum standard deduction provisions	
		Amount (millions)	Percent	Amount (millions)	Percent	Amount (millions)	Percent
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Under \$3.....	\$1, 450	\$400	27. 6	\$170	11. 7	\$570	39. 3
\$3 to \$5.....	4, 030	1, 020	25. 3	100	2. 5	1, 120	27. 8
\$5 to \$10.....	18, 300	3, 905	21. 3	50	. 3	3, 955	21. 6
\$10 to \$20.....	12, 710	2, 285	18. 0			2, 285	18. 0
\$20 to \$50.....	6, 760	1, 150	17. 0			1, 150	17. 0
\$50 and over.....	4, 170	710	17. 0			710	17. 0
Total.....	47, 420	9, 470	20. 0	320	. 7	9, 790	20. 6

¹ After tax credits: excludes \$1,200,000,000 alternative tax on capital gains.

Thus, it is estimated that the minimum standard deduction would reduce the 1965 tax liability of taxpayers with adjusted gross income under \$3,000 by \$170 million, an 11.7-percent reduction from present law tax liability. The tax liability of taxpayers with adjusted gross incomes of \$3,000 to \$5,000 would be reduced by \$100 million, or 2.5 percent; and, for taxpayers with \$5,000 to \$10,000 of adjusted gross income, tax liability would be reduced by \$50 million.

Columns (7) and (8) in table 5 give the combined effect on tax liability of the rate reduction and minimum standard deduction provisions of H.R. 8363. The under \$3,000 income class would have their tax liability reduced by \$570 million or 39.3 percent; the \$3,000 to \$5,000 income class, \$1,120 million or 27.8 percent; and the \$5,000 to \$10,000 class, \$3,955 million or 21.6 percent.

SECTION 113. AMENDMENTS RELATED TO INDIVIDUAL INCOME TAX RATE REDUCTIONS

RETIREMENT INCOME CREDIT

Present law provides a tax credit on retirement for passive investment or pension income received by persons generally aged 65 and over.

Under present law, the credit is 20 percent of the lesser of (a) the retirement income received during the year, or (b) \$1,524 minus the total of certain pensions and annuities and, for those under age 72, current earned income above specified limits. Thus, the maximum retirement income credit is \$308.40 under present law (20 percent of \$1,524). The 20-percent rate is derived from the provision in present law (sec. 37 of the Internal Revenue Code) that the income eligible for the credit be "multiplied by the rate provided in section 1 for the first \$2,000 of taxable income."

Under H.R. 8363, since the first bracket has been split into four brackets, there are four rates, ranging from 14 percent to 17 percent, applicable to the different segments of this first \$2,000 of taxable income. The bill provides that the rate of tax to be used in computing the credit is to be 15 percent. Thus, the maximum retirement income credit under H.R. 8363 would be \$228.60 (15 percent of \$1,524).

TAX ON NONRESIDENT ALIENS

Under present law, nonresident aliens receiving income from sources within the United States, such as interest, dividends, rents, salaries, wages, etc., are taxed on this income at a flat 30-percent rate (except in cases where applicable tax treaties provide other rates). However, present law also provides that, if the nonresident alien receives more than \$15,400 from the specified sources within the United States, the regular income tax applies with respect to the nonresident alien's income from sources within the United States (if this results in a higher tax than the flat rate 30-percent tax). This income level of \$15,400 in present law is the level at which, after allowance for one exemption, the 30-percent flat tax rate approximates the effective tax rate on taxable income derived from use of the regular progressive tax rates.

H.R. 8363 increases to \$21,200 the income level above which the regular income tax applies. This level is appropriate to the tax rate schedule effective under the bill in calendar year 1965 and thereafter, and reflects retention of the 30-percent flat tax rate.

PART II. CORPORATIONS

SECTION 121. CORPORATION TAX RATES

The corporation income tax consists of a normal tax, which applies to all taxable income, and a surtax, which applies to taxable income in excess of \$25,000. At the present time, the normal tax rate is 30 percent and the surtax rate 22 percent, giving a combined rate of 52 percent, but under existing law, the normal tax rate is scheduled to be reduced from 30 percent to 25 percent effective July 1, 1964, making the combined rate 47 percent. Under the bill, H.R. 8363, the normal tax rate is reduced to 22 percent for 1964 and later years. The surtax rate for 1964 is 28 percent, making the combined rate for that year 50 percent; for 1965 the surtax rate is 26 percent, making the combined rate 48 percent.

Since the first \$25,000 of taxable income is exempt from the surtax, the corporations having taxable income of \$25,000 or less pay only the normal tax. Reducing the normal tax rate by 8 percentage points (from 30 percent to 22 percent) as under the bill, while the overall rate is reduced by 2 points (52 percent to 50 percent) in 1964 and a further 2 points (50 percent to 48 percent) in 1965 gives the greatest percentage reduction in tax to those corporations which pay only the normal tax. Furthermore, these corporations have the benefit of the full reduction immediately in 1964, while corporations paying both normal tax and surtax have their taxes reduced in two steps, half the reduction in the combined normal tax and surtax rate being effective in 1964 and the full amount of the reduction in 1965.

Table I shows the tax liabilities for calendar year corporations at various income levels under present rates (1963), under the rates provided by H.R. 8363 for 1964 and 1965 and under the scheduled reduction of 5 points in the normal tax for 1964 and 1965. (Since the reduction provided in existing law is effective July 1, 1964, the calendar year corporations' liabilities for 1964 were computed by prorating.) The percentage reductions from 1963 liabilities are also shown for 1964 and 1965. As indicated in this table, those calendar year corporations which have taxable income of \$25,000 or less have an immediate reduction of 26.67 percent in 1964 under the bill, while their reduction would be only 8.33 percent in 1964 and 16.67 percent in 1965 if the normal tax is reduced by 5 points. The bill provides greater reductions in 1964 and 1965 for corporations having taxable income below \$100,000. For large corporations having taxable income of at least half a million the reductions under the bill for 1964 and 1965 are less than under the 5-point normal tax reduction. Table 2 shows effective tax rates (ratio of tax to taxable income) in 1964 and 1965 under present rates, under the bill, and under the scheduled reduction.

For calendar year corporations the tax liabilities under the bill will be computed for 1964 by applying the 22-percent normal tax rate and

28-percent surtax rate, and for 1965 by applying the 22-percent normal rate and 26-percent surtax rate. Fiscal year corporations will compute their liabilities by prorating in the usual fashion.

Revenue effect

Under the bill, corporation tax liabilities for 1964 will be reduced by \$1.3 billion and for 1965 by \$2.2 billion, compared to liabilities under present rates. The 5-point reduction in the normal tax which would become effective July 1, 1964, would reduce corporate tax liabilities by \$2.4 billion when fully effective. Since this reduction would occur in the middle of calendar 1964 the liabilities for 1964 would be reduced by about \$1.2 billion and for 1965 by the full \$2.4 billion. While the aggregate reductions under the bill and under the scheduled 5-point reduction in the normal tax are approximately equal the benefits are distributed differently. Under the bill the corporations with taxable income of \$100,000 or less would get 21 percent of the total amount of the reduction while under the scheduled 5-point reduction in the normal tax the same corporations would receive only 13 percent.

TABLE 1.—Comparison of tax liabilities of calendar year corporations with selected levels of income under present rates, under H.R. 8363 and under scheduled reduction of July 1, 1964

Percentage reduction from present rates under—									
	Rates under H. R. 8363		Rates under scheduled reduction, July 1, 1964		H. R. 8363		Scheduled reduction, July 1, 1964		
	Present rates	1964	1965	1964 ¹	1965	1964	1965		
		Percent							
	30	22	22	-----	22	-----	-----	-----	
	22	28	26	-----	26	-----	-----	-----	
	52	50	48	-----	48	-----	-----	-----	
	Tax liability								
	\$3,000	\$2,200	\$2,200	\$2,750	\$2,500	26.67	26.67	8.33	16.67
	7,500	5,500	5,500	6,875	6,250	26.67	26.67	8.33	16.67
	10,100	8,000	7,900	9,350	8,600	20.79	21.78	7.43	14.85
	15,300	13,000	12,700	14,300	13,300	15.03	16.99	6.54	13.07
	20,500	18,000	17,500	19,250	18,000	12.20	14.63	6.10	12.20
	33,500	30,500	29,500	31,625	29,750	8.96	11.94	5.60	11.19
	46,500	43,000	41,500	44,000	41,500	7.53	10.75	5.38	10.75
	98,500	93,000	89,500	93,500	88,500	5.58	9.14	5.08	10.15
	254,500	243,000	233,500	242,000	229,500	4.52	8.25	4.91	9.82
	514,500	493,000	473,500	489,500	464,500	4.18	7.97	4.86	9.72
	5,194,500	4,993,000	4,793,500	4,944,500	4,694,500	3.88	7.72	4.81	9.62
	51,994,500	49,993,000	47,993,500	49,494,500	46,994,500	3.85	7.70	4.81	9.62

¹ Prorated.

TABLE 2.—Comparison of effective tax rates of calendar year corporations with selected levels of income under present rates, under H.R. 8363, and under scheduled reductions of July 1, 1964

[In percent]

	Present rates	Rates under H.R. 8363		Rates under scheduled reduction, July 1, 1964	
		1964	1965	1964 ¹	1965
Normal tax rate -----	30	22	22	-----	25
Surtax rate -----	22	28	26	-----	22
Combined rate -----	52	50	48	-----	47
Effective tax rates					
Taxable income:					
\$10,000 -----	30.00	22.00	22.00	27.50	25.00
\$25,000 -----	30.00	22.00	22.00	27.50	25.00
\$30,000 -----	33.67	26.67	26.33	31.17	28.67
\$40,000 -----	38.25	32.50	31.75	35.75	33.25
\$50,000 -----	41.00	36.00	35.00	38.50	36.00
\$75,000 -----	44.67	40.67	39.33	42.17	39.67
\$100,000 -----	46.50	43.00	41.50	44.00	41.50
\$200,000 -----	49.25	46.50	44.75	46.75	44.25
\$500,000 -----	50.90	48.60	46.70	48.40	45.90
\$1,000,000 -----	51.45	49.30	47.35	48.95	46.45
\$10,000,000 -----	51.94	49.93	47.94	49.44	46.94
\$100,000,000 -----	51.99	49.99	47.99	49.49	46.99

¹ Prorated.

SECTION 122. CURRENT TAXPAYMENTS BY CORPORATIONS

This section of the bill will affect only those corporations whose tax liability can reasonably be expected to exceed \$100,000. Under present law, corporations having a tax liability for a given year of \$100,000 or less may pay their taxes in two equal installments on the 15th of the third and sixth months following the close of the tax year. Thus, a corporation which uses the calendar year for accounting purposes and which has a tax liability for 1963 of \$100,000 would pay \$50,000 on March 15, 1964, and \$50,000 on June 15, 1964. The bill makes no change in the payment schedule for such corporations. For a corporation with tax liability greater than \$100,000, present law requires two current taxpayments in the year the liability is incurred, each payment being 25 percent of the tax in excess of \$100,000. If the anticipated 1963 tax for a certain calendar year corporation is \$200,000 the schedule of payments would be as follows:

Sept. 15, 1963	1	\$25, 000
Dec. 15, 1963	1	25, 000
Mar. 15, 1964	2	75, 000
June 15, 1964	2	75, 000
Total		200, 000

1 Current payments.
2 Final payments.

The September and December payments are each 25 percent of (\$200,000—\$100,000), and the final payments made in March and June of the following year are each half of the remaining tax liability or 50 percent of (\$200,000—\$50,000).

Under the bill such a corporation would continue to make the same current payments in September and December as required by present law, but starting in 1964 additional current payments of a portion of the tax in excess of \$100,000 would be made in April and June of the year of liability. These additional payments would be gradually increasing percentages of the tax in excess of \$100,000, starting with 1 percent in 1964 and reaching 25 percent in 1970. The schedule for April and June payments under the bill is shown below.

[In percent]

	April	June
1964	1	1
1965	4	4
1966	9	9
1967	14	14
1968	19	19
1969	22	22
1970	25	25

Final payments would continue to be made in March and June following the liability year, and these would decrease gradually as more of the tax is paid in the year of liability. In 1970 these corporations would be on a fully current basis since 100 percent of the tax in excess of \$100,000 would be paid in the year of liability.

An example set forth in table A will show how the new payment schedule will operate assuming that a calendar year corporation has a constant annual tax liability for 1962 and all later years of \$200,000. (In this example, the rate reductions provided in the bill are not involved since it is assumed that the corporation has the same tax liability each year.) In March and June of 1963 the two final payments of 1962 liability would be made and in September and December current payments of 1963 liability would be made as provided under present law. In March and June of 1964 final payments of 1963 liability would be made, in April and June the first current payments of the new schedule in the bill, and in September and December the current payments as required under present law. The six payments to be made in each calendar year are shown and the total amount paid in each year. In this example where constant tax liability is assumed the payments in the years 1964 through 1970 exceed the payments under present law, but this simplified example ignores the rate reduction of the bill.

TABLE A.—Schedule of taxpayments under H.R. 8363 in calendar years 1963 through 1971, by a calendar year corporation having constant tax liability of \$200,000 per year

Calendar year	Current payments made in year of liability				Final payments made in year following liability		Total payments in the year
	H. R. 8363		Present law and H. R. 8363				
	April	June	September	December	March	June	
1963			\$25,000	\$25,000	\$75,000	\$75,000	\$200,000
1964	\$1,000	\$1,000	25,000	25,000	75,000	75,000	202,000
1965	4,000	4,000	25,000	25,000	74,000	74,000	206,000
1966	9,000	9,000	25,000	25,000	71,000	71,000	210,000
1967	14,000	14,000	25,000	25,000	66,000	66,000	210,000
1968	19,000	19,000	25,000	25,000	61,000	61,000	210,000
1969	22,000	22,000	25,000	25,000	56,000	56,000	206,000
1970	25,000	25,000	25,000	25,000	53,000	53,000	206,000
1971	25,000	25,000	25,000	25,000	50,000	50,000	200,000

It was assumed in the above example that the corporation could make a precise estimate of its tax liability at the time the first current payment is made. This is unrealistic, of course, and present law contains provisions for various methods of computing the current payments. There is no penalty for underpayment if the current payments are the appropriate percentages of 70 percent of the tax liability shown on the final return minus \$100,000. In the example used for the table A the current payments could have been reduced by applying the percentages required as current payments to \$70,000 instead of to \$100,000.

If the corporation estimates its tax for the full year by annualizing the income for the months prior to the current payments, the amount to be paid may be computed using 70 percent of the tax in excess of \$100,000. For the September payment under present law the corporation may annualize the income for the first 6 or 8 months, compute the tax, deduct \$100,000, take 70 percent of the remaining tax, and pay 25 percent. For the December payment the corporation may annualize the income for the first 9 or 11 months. The tax on such income would be computed, the \$100,000 deducted, and 70 percent again applied. The combined payments for September and December must equal 50 percent of the 70 percent used for the December payment, so the September and December payments would often differ if this method is used.

Instead of attempting to estimate the current year's income, the corporation may base the current payments on the preceding year's tax or income, but the 70 percent does not apply here. If there is no change in tax rates, it would make no difference whether last year's tax or income is used, but if there is a change in rates, the corporation has the choice of using last year's tax or of applying the current year rates to last year's taxable income. In either case, the tax in excess of \$100,000 is the basis for the current payments.

All these provisions of present law are continued, and provision is made in the bill for estimating the tax by annualizing the income of the first 3 months to compute the payment to be made in April and for annualizing the income for 3 or 5 months for the second, or June payment.

In the example of table A, the tax liability for the corporation was unchanged; since the bill reduces the corporate taxes in 1964 and 1965 a corporation which has a constant level of income will not have the same tax liability in all the years involved. Table B shows how the new current payment schedule and the rate changes would affect the taxpayments of corporations with a constant income. For each of the four income levels used in this table the tax liabilities for 1963, 1964, 1965, and later years were computed, using the rate reduction of the bill for 1964 and 1965. The current payments were computed by applying the appropriate percentages to 75 percent of the tax liability minus \$100,000. Data on current payments made under present law indicate that corporations base the payments on an amount somewhat higher than 70 percent of the tax over \$100,000, to avoid the risk of a penalty for underpayment.

In table B, unlike table A, the payments in 1964 and later years are less than payments in 1963 for all cases. This would be true at any income level if the payments are based on 75 percent of the tax above \$100,000. If current payments were based on 100 percent of the tax above \$100,000, corporations having taxable income above \$1.5 million would make greater payments in 1966, 1967, and 1968 than in 1963. The current payment percentages used in the bill were worked out to avoid increased payments if the current payments are based on 75 percent of the tax in excess of \$100,000.

TABLE B.—Combined effect of tax reduction and accelerated payments provisions of H.R. 8363 on annual payments by corporations with selected income levels, 1963 through 1971

PART 1. LIABILITIES AND ANNUAL PAYMENTS (CURRENT PAYMENTS BASED ON 75 PERCENT OF TAX IN EXCESS OF \$100,000)

Calendar year	Constant taxable income of—			
	\$500,000	\$1,000,000	\$10,000,000	\$100,000,000
	Liabilities			
1963.....	254,500	514,500	5,194,500	51,994,500
1964.....	243,000	493,000	4,993,000	49,993,000
1965.....	233,500	473,500	4,793,500	47,993,500
	Annual payments			
1963.....	254,500	514,500	5,194,500	51,994,500
1964.....	252,332	512,332	5,192,332	51,992,332
1965.....	245,302	502,202	5,126,402	51,368,402
1966.....	243,512	501,512	5,145,512	51,585,512
1967.....	243,512	501,512	5,145,512	51,585,512
1968.....	243,512	501,512	5,145,512	51,585,512
1969.....	239,508	490,308	5,004,708	50,148,708
1970.....	239,508	490,308	5,004,708	50,148,708
1971.....	233,500	473,500	4,793,500	47,993,500

PART 2. COMPARISON WITH 1963

Calendar year	Constant taxable income of—			
	\$500,000	\$1,000,000	\$10,000,000	\$100,000,000
	Percent of 1963 payments			
1964.....	99.15	99.58	99.96	99.996
1965.....	96.38	97.61	98.69	98.80
1966.....	95.68	97.48	99.06	99.21
1967.....	95.68	97.48	99.06	99.21
1968.....	95.68	97.48	99.06	99.21
1969.....	94.11	95.30	96.35	96.45
1970.....	94.11	95.30	96.35	96.45
1971.....	91.75	92.03	92.28	92.30
	Amount of reduction from 1963			
1964.....	\$2,168	\$2,168	\$2,168	\$2,168
1965.....	9,198	12,298	68,098	626,098
1966.....	10,988	12,988	48,988	408,988
1967.....	10,988	12,988	48,988	408,988
1968.....	10,988	12,988	48,988	408,988
1969.....	14,992	24,192	189,792	1,845,792
1970.....	14,992	24,192	189,792	1,845,792
1971.....	21,000	41,000	401,000	4,001,000

Revenue effect

While this provision does not affect the tax liability of corporations, the timing of the new current payments under the bill results in increased revenues to the Federal Government. Since current payments by calendar year corporations will be made in April and June of 1964, budget receipts for fiscal 1964 will be increased for that year and similarly for fiscal years through fiscal 1970. The staff estimates the increase in fiscal 1964 as \$230 million and in fiscal 1965 as \$710 million. The Treasury estimates for fiscal years 1964 and 1965 are \$260 million and \$900 million respectively.

SECTION 123. RELATED AMENDMENTS

The tax on mutual insurance companies is adjusted in conformity with the new rates.

The section dealing with the receipt of minimum distributions by domestic corporations from foreign corporations is also amended in conformity with the changes in rates.

**SUMMARY OF H.R. 8363, THE REVENUE
ACT OF 1963, AS PASSED BY THE U.S.
HOUSE OF REPRESENTATIVES**

**PART B
STRUCTURAL CHANGES
SECTIONS 201-206**

**PREPARED FOR THE USE OF
THE COMMITTEE ON FINANCE
OF THE U.S. SENATE
BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION**



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CONTENTS

PART B

	Page
Title II. Structural Changes:	
Section 201. Dividends received by individuals.....	27
Section 202. Investment credit: Repeal of provision reducing basis of property by 7 percent and other amendments.....	31
Section 203. Group-term life insurance.....	37
Section 204. Reimbursement of medical expenses in excess of such expenses.....	42
Section 205. Amounts received under wage continuation plans.....	43
Section 206. Exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65.....	44

TITLE II—STRUCTURAL CHANGES

SECTION 201. DIVIDENDS RECEIVED BY INDIVIDUALS

Increase in exclusion

Under existing section 116 of the Internal Revenue Code the first \$50 of dividend income received by an individual during the taxable year is excluded from gross income. An amendment made by the bill doubles the amount of this exclusion so that, for taxable years beginning after December 31, 1963, the exclusion will be up to \$100 for a single person (instead of up to \$50 as at present). Of course, on a joint return the exclusion may be up to \$200 (instead of up to \$100 as under present law).

Repeal of credit

Section 34 of the Internal Revenue Code provides for a credit against tax because of dividends received. The credit is 4 percent of dividends received in excess of the dividend exclusion. However, the credit is limited to the lesser of—

- (1) The tax for the year, or
- (2) 4 percent of the taxable income.

The bill reduces this credit to 2 percent for dividends received during the year 1964 and repeals it entirely for all dividends received after 1964.

Revenue effects

The combined effect of the two provisions is a \$120 million increase in revenue in 1964 and a \$300 million increase in 1965 and later years.

Impact of increase in exclusion and repeal of credit

If a taxpayer's dividend income after the exclusion equals or exceeds his taxable income, the credit amounts to a full 4 percent of his taxable income. Thus, apart from a change in the exclusion, repeal of the credit is the same thing in such a case as increasing the effective rate on taxable income by 4 percentage points. At certain levels of taxable income this is substantially the same number of percentage points as the reduction in effective rates achieved by the bill. Table 1 shows, for selected taxable income levels, the difference between the effective tax rate on taxable income under present law and under H.R. 8363 in 1965.

TABLE 1.—Effective tax rate on taxable income under present law tax rates and under H.R. 8363 tax rates, 1965

SELECTED TAXABLE INCOME LEVELS—SINGLE PERSON

Taxable income	Tax under present law		Tax under H.R. 8363			
	Amount	Effective rate (percent)	Amount	Effective rate (percent)	Reduction from present law	
					Amount	Effective rate (percentage points)
\$500.....	\$100.00	20.00	\$70.00	14.00	\$30.00	6.00
\$1,000.....	200.00	20.00	145.00	14.50	55.00	5.50
\$1,500.....	300.00	20.00	225.00	15.00	75.00	5.00
\$2,000.....	400.00	20.00	310.00	15.50	90.00	4.50
\$2,500.....	510.00	20.40	405.00	16.20	105.00	4.20
\$3,000.....	620.00	20.67	500.00	16.67	120.00	4.00
\$3,500.....	730.00	20.86	595.00	17.00	135.00	3.86
\$3,950.....	829.00	20.99	680.50	17.23	148.50	3.76
\$4,000.....	840.00	21.00	690.00	17.25	150.00	3.75
\$4,017.....	844.42	21.02	693.74	17.27	150.68	3.75
\$4,500.....	970.00	21.56	800.00	17.78	170.00	3.78
\$5,000.....	1,100.00	22.00	910.00	18.20	190.00	3.80
\$5,500.....	1,230.00	22.36	1,020.00	18.55	210.00	3.81
\$6,000.....	1,360.00	22.67	1,130.00	18.83	230.00	3.84
\$6,500.....	1,510.00	23.23	1,255.00	19.31	255.00	3.92
\$7,000.....	1,660.00	23.71	1,380.00	19.71	280.00	4.00
\$7,500.....	1,810.00	24.13	1,505.00	20.07	305.00	4.06
\$8,000.....	1,960.00	24.50	1,630.00	20.38	330.00	4.12
\$10,000.....	2,640.00	26.40	2,190.00	21.90	450.00	4.50
\$12,000.....	3,400.00	28.33	2,830.00	23.58	570.00	4.75
\$14,000.....	4,260.00	30.43	3,550.00	25.36	710.00	5.07
\$16,000.....	5,200.00	32.50	4,330.00	27.06	870.00	5.44
\$18,000.....	6,200.00	34.44	5,170.00	28.72	1,030.00	5.72
\$20,000.....	7,260.00	36.30	6,070.00	30.35	1,190.00	5.95

It will be observed that the difference approximates 4 percentage points at many levels and is exactly 4 points at the \$3,000 level and the \$7,000 level. In the entire range between these two levels the difference in effective rates is actually slightly less than 4 percentage points.

If the impact of the additional exclusion is also brought into the picture the results would be as shown in table 2.

TABLE 2.—*Tax effect of increasing dividend exclusion, eliminating dividend tax credit, and reducing individual income tax rates under H.R. 8363, 1965*

SINGLE PERSON—WITH DIVIDEND INCOME AFTER EXCLUSION EQUAL TO OR IN EXCESS OF TAXABLE INCOME

Taxable income before dividend exclusion	Under present law		Under H.R. 8363			
	Amount	Effective rate ¹ (percent)	Amount	Effective rate (percent)	Increase (+) or decrease (—)	
					Amount	Effective rate (percentage points)
\$550.....	\$80.00	14.55	\$63.00	11.45	—\$17.00	—3.10
\$1,050.....	160.00	15.24	137.50	13.10	—22.50	—2.14
\$1,550.....	240.00	15.48	217.00	14.00	—23.00	—1.48
\$2,050.....	320.00	15.61	301.50	14.71	—18.50	— .90
\$2,550.....	410.00	16.03	395.50	15.51	—14.50	— .57
\$3,050.....	500.00	16.39	490.50	16.08	—9.50	— .31
\$3,550.....	590.00	16.62	585.50	16.49	—4.50	— .13
\$4,000.....	671.00	16.78	671.00	16.78	0	0
\$4,050.....	680.00	16.79	680.50	16.80	+ .50	+ .01
\$4,067.....	683.73	16.81	683.73	16.81	0	0
\$4,550.....	790.00	17.36	789.00	17.34	—1.00	— .02
\$5,050.....	900.00	17.82	899.00	17.80	—1.00	— .02
\$5,550.....	1,010.00	18.20	1,009.00	18.18	—1.00	— .02
\$6,050.....	1,120.00	18.51	1,119.00	18.50	—1.00	— .01
\$6,550.....	1,250.00	19.03	1,242.50	18.97	—7.50	— .11
\$7,050.....	1,380.00	19.57	1,367.50	19.40	—12.50	— .17
\$7,550.....	1,510.00	20.00	1,492.50	19.77	—17.50	— .23
\$8,050.....	1,640.00	20.37	1,617.50	20.09	—22.50	— .28
\$10,050.....	2,240.00	22.29	2,176.00	21.65	—64.00	— .64
\$12,050.....	2,920.00	24.23	2,814.00	23.35	—106.00	— .88
\$14,050.....	3,700.00	26.33	3,532.00	25.14	—168.00	—1.19
\$16,050.....	4,560.00	28.41	4,310.50	26.86	—249.50	—1.55
\$18,050.....	5,480.00	30.36	5,149.00	28.53	—331.00	—1.83
\$20,050.....	6,460.00	32.22	6,047.50	30.16	—412.50	—2.06

¹ As a percentage of taxable income before dividend exclusion.

This table presents the tax effect of three provisions of H.R. 8363; the increase of the dividend exclusion, the elimination of the dividend credit, and the reduction of the individual income tax rates. It shows the tax actually payable under present law and under H.R. 8363 in 1965. It is apparent from the data in this table that for many taxpayers whose incomes are primarily from dividends, the reduction in rates will be almost fully counterbalanced by the repeal of the credit.

Some retired taxpayers (whose income is primarily from dividends) will pay more under the bill than under existing law. This may be illustrated by taking the case of a single taxpayer more than 65 years of age whose entire gross income (all from dividends) is \$3,500 and who is entitled to the maximum retirement income credit. It is assumed his deductions amount to 10 percent of his adjusted gross income under present law. The computation of tax under existing law and under H.R. 8363 in 1965 and thereafter is as follows:

Single taxpayer, age 65	Present law	H. R. 8363 (1965 rates)
Gross income (all from dividends).....	\$3, 500. 00	\$3, 500. 00
Less: Exclusion from gross income.....	50. 00	100. 00
Adjusted gross income.....	3, 450. 00	3, 400. 00
Less: Personal exemption.....	1, 200. 00	1, 200. 00
Total.....	2, 250. 00	2, 200. 00
Less: Deductions (minimum standard deduction in 1965).....	345. 00	400. 00
Taxable income before credits.....	1, 905. 00	1, 800. 00
Tentative tax (before credits).....	381. 00	276. 00
Less: Dividends credit (4 percent of taxable income).....	76. 20	0
Total.....	304. 80	276. 00
Less: Retirement income credit.....	304. 80	228. 60
Tax due.....	0	47. 40

Such a taxpayer would pay more tax at the 1965 rates under H.R. 8363 than under existing law so long as his entire income (all from dividends) does not exceed a level approximating \$13,000.

SECTION 202. INVESTMENT CREDIT: REPEAL OF PROVISION REDUCING BASIS OF PROPERTY BY 7 PERCENT AND OTHER AMENDMENTS

In the Revenue Act of 1962, Congress allowed a credit against tax of 7 percent for certain types of investment and in effect allowed a credit of 3 percent in the case of certain public utility property. This credit may entirely offset the first \$25,000 of tax liability and may offset one-quarter of the tax liability above \$25,000. Any credit which cannot be used in the current year because of these limitations may be carried back 3 years and then forward for 5 years. Property with an estimated useful life of 8 years or more may be fully taken into account in computing this credit, property with an estimated life from 6 to 8 years may be taken into account at two-thirds of its cost, and property with an estimated life from 4 to 6 years can be taken into account at one-third of its cost. Property with a life of less than 4 years is not eligible for the credit. If the property is disposed of before the end of the life used in computing the credit, some or all of the credit is recaptured. The same rule applies if the use of the property is changed to a use which does not qualify for the credit (such as use outside the United States). For the most part, the credit is limited to purchases of tangible personal property, such as machinery and equipment. Generally, the credit is limited to purchases of new equipment although purchases of up to \$50,000 of used machinery and equipment may also be taken into account.

A. Repeal of basis adjustment provision

The Senate Finance Committee added a provision to the Revenue Act of 1962 to provide that in the case of assets eligible for the investment credit, the base on which depreciation could be taken (and the base for determining gain or loss on sale) was to be reduced by the amount equal to the amount of the credit allowed. Thus, for example, where a taxpayer purchased an asset for \$100 and \$7 of this purchase price was allowed as an investment credit, the basis on which depreciation can be computed with respect to this asset is decreased from \$100 to \$93. Where the 5-year carryover period expires, and the taxpayer was unable to use the credit (because of the limitation to 25 percent of the liability over \$25,000), the taxpayer is allowed a special deduction in computing taxable income equal to the adjustment in basis attributable to the unused credit. In addition, if there is a recapture of some or all of the credit, because of a premature disposition, or change in use, of the property, the basis is increased to the extent of the credit recaptured.

For property placed in service after June 30, 1963, the House bill repeals the adjustment to basis provisions (sec. 48(g)) of existing law. Thus, for property placed in service after that date an investment credit will be available without making any 7-percent downward adjustment in the basis of the property involved.

In the case of property placed in service before July 1, 1963, and still on hand at the beginning of the taxpayer's first year beginning after June 30, 1963, the bill provides for the restoration of the basis to the property to the extent of the net reduction because of the credit. The basis increase is to equal 7 percent of the qualified investment in the property. However, if an increase in basis has previously been made because the property, before the end of its estimated useful life, became ineligible property (as occurs when it is used abroad), the amount of basis to be restored is to be reduced by the amount of any previous basis increase made.

This addition to basis in the case of those computing depreciation on a straight-line basis is to be recouped ratably by the taxpayer over the remaining life of the assets. This can be illustrated by a taxpayer having an asset which cost \$100, which has a 10-year life, and on which an investment credit of \$7 has been taken. In this case his base for taking depreciation is \$93. Therefore, if he has taken a year's depreciation, it would have amounted to \$9.30. This leaves a base still to recover of \$83.70. The bill would add back to this base the \$7 by which it was previously reduced, leaving \$90.70 ($\$83.70 + \7) still to be recovered. It is understood that this would be recovered ratably over the 9 remaining years of useful life and would therefore amount to \$10.08 a year ($\$90.70 \div 9$). In the case of double declining balance depreciation, the recoupment would occur somewhat faster. This is also true of the sum-of-the-year's-digits method. This method of handling the restoration of the basis in the case of investment credit assets previously placed in use makes the taxpayer "whole" without the necessity of refunds.

The bill also provides for a similar adjustment in the case of lessees. Last year when Congress enacted the investment credit it provided that lessors could pass the benefit of the investment credit on to the lessees in most cases. Where this occurred, it was provided that the rental deductions taken by the lessee with respect to this property were to be decreased by an amount equal to what otherwise would have been the downward adjustment in basis. The House bill in these cases provides that for the future, no such decreases in the rental deductions are to be made, and the amount of the decreases in rental deductions already taken with respect to a property are to be restored by allowing rental deductions larger than would otherwise be the case. The increases allowed in the rental deductions will, in effect, restore the amount of decreases previously taken by spreading the increased deductions over the remaining useful life of the asset.

The adjustments in the basis and the rental deductions referred to above are to apply to the taxpayer's first year beginning after June 30, 1963.

Conforming amendments to the provision described above provide for (1) the repeal of the sentence which in the case of leased property requires the decrease in the rental deduction; (2) the repeal of the section (sec. 181) providing for the deduction of amounts attributable to unused investment credits after the application of the carryforward; and (3) amendment of the provision (sec. 1016(a)(19)) requiring a basis adjustment.

B. Basis of leased property to lessee

As previously indicated, the investment credit enacted last year provides that a lessor may pass the benefits of any investment credit arising from his purchases or other acquisitions on to the lessee of the property. Present law specifies that the amount of the investment credit which is to be passed on in such cases is to be computed in one way if the property was constructed by the lessor (or a related corporation) and in another way in all other cases. Where the lessor was the constructor or manufacturer, present law provides that the investment credit is to be the appropriate percentage of the fair market value of the property. Where the property is leased from a distributor or some other person other than the manufacturer, the amount of the investment credit is to be computed on the "basis" of the property (generally its cost).

The problem involved can be illustrated by equipment which has a fair market value of \$1,000 which the manufacturer, in those cases in which he sells it to a distributor, sells it at a 25-percent discount, or for \$750. In such a case the investment credit under present law where the manufacturer is the lessor is 7 percent of \$1,000 or \$70. However, where the distributor is the lessor the amount of the investment credit is \$52.50 (7 percent of \$750).

The House bill provides that, with one minor exception, the investment credit in the case of leases is to be computed on the basis of the "fair market value" of the property. The one exception is where property is leased by a corporation which is a member of an affiliated group to another corporation which is a member of the same affiliated group. In this case, the investment credit will continue to be computed on the basis of the property to the lessor.

This provision applies to property the possession of which is transferred to a lessee on or after the date of enactment of this bill.

C. Treatment of elevators and escalators

Congress last year in adopting the investment credit made it available in the case of a few types of real property but in no case included buildings and their structural components. The committee reports on the bill last year indicated that the term "structural components" of a building included such parts of a building as central air-conditioning and heating systems, plumbing, and electrical wiring and lighting fixtures relating to the operation and maintenance of the building. The proposed regulations issued by the Treasury Department, with respect to the term "structural components," provide an extensive list of the type of items considered to be structural components and, therefore, not eligible for the investment credit. Among these items are escalators and elevators.

The House bill changes the treatment provided last year with respect to elevators and escalators. It provides that elevators and escalators are to be eligible for the investment credit where their construction, reconstruction, or erection is completed after June 30, 1963, or where the elevators or escalators are new in the hands of the taxpayer and are acquired after that date.

In view of the fact that the investment in elevators and escalators is to be eligible for the investment credit, the House bill also treats them as subject to the recapture provision (sec. 1245) also enacted by

Congress last year. In general terms, this provides that when the equipment or machinery is sold, any gain realized on the sale, to the extent of depreciation deductions taken by the taxpayer after December 31, 1961, is to be treated as ordinary income rather than as capital gain. However, under the House bill in the case of elevators and escalators, only depreciation deductions taken with respect to periods after June 30, 1963, are to be subject to this ordinary income recapture when the elevators or escalators subsequently are sold at a gain.

This provision applies only to elevators and escalators sold after December 31, 1963.

D. Treatment of investment credit by Federal regulatory agencies

Both the House and Senate committee reports on investment credit last year, as well as in last year's statement of the managers on the part of the House with respect to the conference (and the floor statement in the Senate with respect to the conference report), state that the purpose of the investment credit was to stimulate investment by reducing the net cost of acquiring depreciable assets. This is shown in the following quotations, first in the report of the House committee on the bill:

The investment credit will stimulate investments because—as a direct offset against the tax otherwise payable—it will reduce the cost of acquiring depreciable assets. This reduced cost will stimulate additional investment as it increases the expected return from their use. The investment credit will also encourage investment because it increases the funds available for investment. * * *

In the report of the Finance Committee it was stated:

The investment credit will stimulate investment, first by reducing the net cost of acquiring depreciable assets, which in turn increases the rate of return after taxes arising from their acquisition. * * *

The objective of the credit is to reduce the net cost of acquiring new equipment; this will have the effect of increasing the earnings of new facilities over their productive investment. It is your committee's intent that the financial assistance represented by the credit should itself be used for new investment, thereby further advancing the economy.

Again in the statement of the managers on the part of the House with respect to the conference committee (this statement was repeated on the floor of the Senate by Senator Kerr) it was stated:

It is the understanding of the conferees on the part of both the House and Senate that the purpose of the credit for investment in certain depreciable property, in the case of both regulated and nonregulated industries, is to encourage modernization and expansion of the Nation's productive facilities and to improve its economic potential by reducing the net cost of acquiring new equipment, thereby increasing the earnings of new facilities over their productive lives.

Despite the statement cited above, the Federal Communications Commission has indicated that it is its policy that any benefits from the investment credit made available by the Revenue Act of 1962 should "flow through" immediately to the customers. In addition, the staff of the Federal Power Commission has recommended the same position. Apparently, these positions are at least in part based on statements made by Senator Kerr in the Senate floor debate in a discussion with Senator Proxmire wherein he suggested that the benefit of the investment credit in the case of regulated industries would in all likelihood be passed on to the customers.

The House bill provides that it was the intent of Congress in providing an investment credit and that it is the intent of Congress in repealing the reduction in basis (in this bill) to provide an incentive for modernization and growth of private industry (including the portion which is regulated).

The House bill further specifies in two paragraphs the intent of Congress as to the treatment of the investment credit by the Federal regulatory agencies. It states that in the case of public utility property the Federal regulatory agencies are not, without the taxpayer's consent, for the purpose of establishing the cost of service of the taxpayer, to treat more than a proportionate part of an investment credit (determined with reference to the useful life of the property) as reducing the taxpayer's Federal income tax liabilities. Nor are they to accomplish a similar result by any other method. "Public utility property" in this case includes property of electric, gas, water, telephone, and telegraph public utilities which under the 1962 act are eligible for what, in effect, amounts to a credit of 3 percent. Thus in these cases the regulatory agencies are instructed not to "flow" the benefit "through" to the customers over any period shorter than the useful lives of the property involved.

The bill also provides restrictions for Federal regulatory agencies in the case of other regulated companies—such as natural gas pipeline, railroads, airlines, truck and bus operators, and other types of public carriers—which receive an investment credit of 7 percent of the investment in the qualified property. In these cases the House bill provides that the Federal regulatory agencies are not without the taxpayer's consent, for purposes of establishing the cost of service of the taxpayer, to treat any portion of the investment credit allowed as reducing the taxpayer's Federal income tax liabilities. Nor are the agencies to accomplish a similar result by any other method. As a result, in these cases, Congress is directing the Federal regulatory agencies not to "flow" this benefit "through" to the customer at any time, either in the current year or over the useful life of the assets involved.

E. Revenue effect

The Treasury Department and the staff of the Joint Committee on Internal Revenue Taxation have different estimates as to the effect of the repeal of the basis adjustment in the case of the investment income credit. The estimates of the two staffs are as follows:

Fiscal year effect based on rates in bill

[In millions]

	Joint com- mittee staff estimates	Treasury estimates
1964-----	\$15	\$15
1965-----	245	145
1966-----	305	185
1967-----	370	240
1968-----	435	290
1969-----	500	(1)
1970-----	560	-----
1971-----	615	-----
1972-----	670	-----
1973-----	725	-----
Total-----	4,440	-----

1 The Treasury Department has not made estimates beyond 1968.

Making elevators and escalators eligible for the investment credit is expected to result in an additional \$10 million of loss in the calendar year 1964 and subsequent years.

SECTION 203. GROUP-TERM LIFE INSURANCE

By administrative action dating back to 1920, employees have been able to exclude from their gross incomes amounts paid by their employers to purchase group-term life insurance protection on their lives. (0.1014, CB No. 2, 88.) On the other hand, amounts paid by qualified pension plans to provide group-term life insurance protection for individuals covered by the plan is includible in the individual's gross income. (Rev. Rul. 54-52, 54-1 CB 150.)

This provision overrules this administrative exclusion by requiring employees to include in their incomes amounts paid by their employers to purchase group-term life insurance protection for them in excess of \$30,000. If the employee also contributes toward the purchase price of his insurance, his contributions serve to reduce the amount includible in his gross income as amounts paid by his employer.

The precise amount includible in an employee's income is to be determined by reference to a "uniform premium" table to be issued by the Secretary or his delegate on the basis of 5-year age brackets, or alternatively, if the employer elects, it may be determined by reference to the "average premium cost" for the ages included within the 5-year age brackets reflected in the uniform premium table. The determination is to be made by the employer on an employee-by-employee basis and presumably he will elect the average premium cost method for an employee if it results in a lesser amount being included in income. However, this election is not available if the premium (under the group-term policy) is computed other than on the basis of the cost of the insurance at the age brackets provided in the uniform premium table. Thus, for example, the policy cost method may not be used in the case of a policy under which the premium is computed on the basis of 10-year age brackets or on the basis of the mortality experience of the group as a whole.

As a practical matter it is understood that in most situations the uniform premium table will produce the lesser amount. This is because the uniform premiums do not take into account salesman commissions or administrative expenses.

The Treasury has indicated that the following uniform table will be utilized until it is modified in accordance with changing experience:

TABLE 11.—Uniform 1-year term premiums for \$1,000 of life insurance protection

[Cost per \$1,000 of protection]	
Age:	
15 to 19	\$1. 44
20 to 24	1. 73
25 to 29	2. 11
30 to 34	2. 72
35 to 39	3. 65
40 to 44	5. 10
45 to 49	7. 36
50 to 54	10. 87
55 to 59	16. 29
60 to 64 ¹	24. 67

¹ Those age 65 and over whose employment is not terminated will also have their insurance cost computed on the basis of the 60 to 64 age category.

The operation of the general rule of this provision is illustrated as follows:

Example 1.—Employee X (age 28) and employee Y (age 50) are each provided with \$40,000 of group-term life insurance protection for a full taxable year by their employer. The amount includible in their gross incomes is determined by reference to the uniform premium table as follows:

Total group-term life insurance protection	\$40, 000. 00
Less \$30,000 exclusion	30, 000. 00
Group-term life insurance protection in excess of \$30,000	10, 000. 00
Cost of \$10,000 group-term life insurance protection for X ($10 \times \$2.11$)	21. 10
Cost of \$10,000 group-term life insurance protection for Y ($10 \times \$10.87$)	108. 70

Thus, for the taxable year X must include \$21.10 in his gross income and Y must include \$108.70 in his gross income.

Example 2.—Assume the same facts as in example 1, except that X and Y are required to contribute \$1 for each thousand dollars of insurance protection. The amount includible in their gross incomes is determined by reference to the uniform premium table as follows:

Total group-term life insurance protection	\$40, 000
Less \$30,000 exclusion	30, 000
Group-term life insurance protection in excess of \$30,000	10, 000
Cost of \$10,000 group-term life insurance protection for X ($10 \times \$2.11$)	21. 10
Less X's contribution ($40 \times \$1$)	40. 00
Total	0
Cost of \$10,000 of group-term life insurance protection for Y ($10 \times \$10.87$)	108. 70
Less Y's contribution ($40 \times \$1$)	40. 00
Total	68. 70

Thus, under this contributory plan X includes no amount in his income; Y, on the other hand, must include \$68.70 in his gross income. (This \$68.70 is the cost of insurance protection (for Y) in excess of \$30,000, reduced by the employee's own contribution.)

Under the provision, the cost of insurance protection for an employee who is age 64 or over is to be determined as if the employee were age 63. Therefore, employees over age 63 who receive group-term life insurance protection in excess of \$30,000 from their employers are not required to include increasingly large amounts in their gross incomes as they progress in age. If their insurance coverage does not change, the amount includible in their gross income at age 70 or age 75, for example, will be the same as the amount which would have been includible in their gross income if they were age 63.

The provision is not to result in the inclusion of any amount in the income of an employee (1) who has reached normal retirement age with respect to his employer and has terminated his employment with *that* employer, or (2) who is disabled to the extent that he "is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite

duration." This is the same test of disability as applies under the Social Security Act.

Moreover, the provision is not to apply if the employer, or an organization to which deductible charitable contributions can be made, is the beneficiary of the group-term insurance on the employee's life. For income tax purposes, no charitable contribution deduction may be taken in those cases where a charity is named as the beneficiary.

In addition, this provision is not to apply with respect to group-term life insurance protection provided under a qualified employee's pension, profit-sharing or stock bonus plan. In these situations, as already indicated, the amount of the premium for the group-term insurance is already fully includible in the covered individual's gross income, and that result is not modified by this provision.

Where an amount is required to be included in an employee's gross income under this provision, the employer is required to treat the includible amount as wages and withhold taxes with respect to it. Thus, if employees X and Y in example 1 above, are paid on a monthly basis by their employer, X will be treated as if he received an additional \$1.75 of wages each month ($21.10 \div 12$) and his employer will withhold approximately 25 cents ($\$1.75 \times 14$ percent (proposed withholding rate for 1965)) from his wages each month. Employee Y will be treated as if he received an additional \$9.05 of wages each month and his employer will withhold approximately \$1.27 from his wages each month.

For income tax withholding purposes, each employer is to determine whether any amount is includible in his employee's gross income (and subject to withholding) as if he were the only employer. For example, if an employee has two employers each of whom provides him with \$20,000 of group-term life insurance protection, then neither employer treats any amount as includible in that employee's income. (Of course, the employee must include the cost of \$10,000 of group-term life insurance protection in his gross income when he files his tax return for the year, and pay tax on the included amount at that time.) There would be no withholding with respect to social security taxes, nor would the amount includible in gross income under this provision constitute "wages" for purposes of the unemployment tax (IRC., secs. 3121 (b)(2), 3306(b)(2)).

If an employee is provided with group-term life insurance protection of less than \$30,000 for part of a year and more than \$30,000 for the remainder of the year, the cost of the protection in excess of \$30,000 for the portion of the year it is provided must be included in his gross income. For example, if an employee is provided \$25,000 of group-term life insurance for the first 6 months of his taxable year and \$40,000 of such insurance for the remaining 6 months, the cost of \$10,000 of the group-term insurance for the second 6-month period is includible in his gross income. However, if the employee contributes toward the cost of his insurance protection, the total amount of his contributions, both with respect to the period during which his protection was less than \$30,000 as well as during the period it was greater, serve to reduce the amount includible in his gross income. This is illustrated by the following example:

Example 3.—Employee Y is provided with \$25,000 of group-term life insurance protection for the first 6 months of his taxable year and \$40,000 of such protection for the remaining 6 months. His employer

requires Y to pay \$1 for each thousand dollars of protection for 1 year. The amount includible in Y's gross income is determined by reference to the uniform premium table as follows:

Total group-term life insurance protection	\$40, 000
Less \$30,000 exclusion	30, 000
Group-term life insurance protection in excess of \$30,000	10, 000
Cost of \$10,000 of group-term life insurance protection for Y for $\frac{1}{2}$ year ($10 \times \$10.87 \times \frac{1}{2}$)	54. 35
Less Y's contribution ($40 \times 1 \times \frac{1}{2}$) + ($25 \times 1 \times \frac{1}{2}$)	32. 50
Total	21. 85

Thus, for the taxable year Y must include \$21.85 in his gross income.

A special deduction (from adjusted gross income) is provided under the provision for those employees whose own contribution toward the purchase price of group-term life insurance protection in excess of \$30,000 exceeds the cost of such insurance as determined by the uniform premium table. (In measuring the deduction, the average premium cost method may not be used.) The purpose of this is to enable an employee to deduct the amount he has contributed to purchase group-term life insurance protection for other employees covered under the group. The operation of this special deduction is illustrated by the following example:

Example 4.—Employee X (age 28) and employee Y (age 50) are each provided with \$40,000 of group-term life insurance protection by their employer. They are required by their employer to contribute \$2.50 for each thousand dollars of protection. The amount deductible (if any) is determined as follows:

Total group-term life insurance protection	\$40, 000
Less \$30,000 exclusion	30, 000
Group-term life insurance protection in excess of \$30,000	10, 000
Amount paid by X for protection in excess of \$30,000 ($\2.50×10)	25. 00
Less cost uniform premium table of protection in excess of \$30,000 ($\2.11×10)	21. 10
Total	3. 90

Thus, the amount deductible by employee X is \$3.90; Y, on the other hand, would have no deduction under the assumed facts because his contribution of \$2.50 for each thousand dollars of group-term protection in excess of \$30,000 is less than the uniform premium cost of such protection (\$10.87) for employees in his age bracket. (As a matter of fact, Y must include \$8.70 in his income, determined by subtracting Y's contribution of \$100 ($\2.50×40) from \$108.70 (the cost of insurance protection in excess of \$30,000 provided by the employer).)

Example 5.—Assume the same facts as in example 4 except that the employer provides the first \$30,000 of group-term life insurance without cost to all the employees. For each thousand dollars of protection in excess of \$30,000, each employee is required to contribute \$2.50. The amount deductible (if any) is determined as follows:

Total group-term life insurance protection	\$40, 000
Less \$30,000 exclusion	30, 000
Group-term life insurance protection in excess of \$30,000	10, 000
Amount paid by X for protection in excess of \$30,000 ($\2.50×10)	25. 00
Less cost on uniform premium table of protection in excess of \$30,000 ($\2.11×10)	21. 10
Total	3. 90

Thus, the amount deductible by employee X is \$3.90; Y, on the other hand, would have no deduction, because his contribution of \$2.50 for each thousand dollars of group-term protection in excess of \$30,000 is less than the uniform premium table cost of such insurance (\$10.87). (As a matter of fact, Y must include \$83.70 in his income, determined by subtracting Y's contribution of \$25 ($\2.50×10) from \$108.70 (the cost of insurance protection in excess of \$30,000 provided by the employer).)

For purposes only of measuring the amount of a deduction by an employee under this provision, the age 63 limitation for employees who are 64 or over does not apply. This means that for an employee age 64 or over to deduct any amount contributed by him toward the purchase price of group-term insurance protection in excess of \$30,000, his contribution must exceed the uniform premium cost for an individual in his actual age bracket, not the age 60–64 bracket.

Life insurance salesmen are to be treated as employees for purposes of the new provisions relating to group-term life insurance protection.

Estimated impact: The Treasury Department has indicated that this provision will affect less than 1 percent of the 43 million employees covered by group-term life insurance. The provision is estimated to increase revenues by \$5 million in a full year of operation.

Effective date: These provisions are to apply with respect to group-term life insurance protection provided after December 31, 1963.

SECTION 204. REIMBURSEMENT OF MEDICAL EXPENSES IN EXCESS OF SUCH EXPENSES

Generally, under present law, amounts received from accident or health insurance for medical expenses for personal injuries or sickness are not includible in gross income. In addition, accident and health insurance premium payments may be claimed as a medical deduction if, when combined with other unreimbursed medical expenses, they exceeded 3 percent of adjusted gross income.

Cases have arisen where a taxpayer has received, through duplicate payments under more than one accident or health insurance policy, payments which have exceeded his medical expenses with respect to a given injury or sickness. These cases occur when the individual himself carries two policies or when the individual carries one policy and his employer also provides for the payment of his medical expenses either through an insurance policy or through self-insurance. The bill would amend present law by providing that in such cases where the payments received from accident or health insurance for medical expenses for any one given injury or sickness exceed the total amount of medical expenses incurred with respect to that injury or sickness such excess amount is to be treated as income.

This amendment would apply to accident and health insurance payments received in taxable years beginning after December 31, 1963, and is expected to result in a negligible increase in revenue.

SECTION 205. AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS

Present law provides that wage continuation payments attributable to absence from work because of personal injury or sickness are not includible in gross income to the extent such amounts do not exceed a weekly rate of \$100. However, such exclusion is available only after the first 7 days of absence unless the employee is hospitalized because of the sickness for at least 1 day during his absence, or unless the taxpayer was injured in which case no waiting period is required.

The bill would amend present law by providing that wage continuation payments would not be excludable to the extent such payments are attributable to the first 30 days of absence because of personal injury (permanent or otherwise) or sickness regardless of whether or not the employee is hospitalized during that 30-day period. Present law treatment of taxpayers receiving permanent disability pensions before the normal retirement age would be continued. Present law would also be continued with respect to the employer withholding and reporting requirements.

The amendment would be applicable to wage continuation payments attributable to periods of absence commencing after December 31, 1963, and is estimated to result in an increase in revenues of \$110 million a year when fully effective.

SECTION 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65

Present law eliminates the immediate recognition of gain on the sale of a taxpayer's principal residence if the taxpayer uses the proceeds from the sale of his old residence to acquire a new residence. To qualify, however, the taxpayer must purchase and occupy the new residence within 1 year of the date of sale of his old residence, unless he builds a new residence, in which event the period is 18 months. If less than the entire proceeds from the sale of the old residence is reinvested in the new residence, gain is recognized, but only to the extent the adjusted sales price of the old residence exceeds the taxpayer's cost of acquiring the new residence.

Under present law, the basis of the old residence is, in effect, carried over to the new residence, increased by any additional investment in the new residence. However, present law in theory provides only for a deferral of tax on gain from the sale of a residence since the gain, or successive gains, excluded from tax at the time of the sale remain potentially subject to tax should the taxpayer sell a residence without meeting the requirements of present law with respect to reinvesting proceeds from the sale of an old residence in a new residence. Thus, the gain, except in the case of death, is eventually recognized for income tax purposes.

The application of present law is illustrated by the following example:

Example.—Assume individual A, on January 1, 1960, owned a personal residence having an adjusted basis of \$10,000. Assume that in 1960, A sold this residence (X) for \$14,000 and immediately invested the proceeds of the sale in a new residence (Y) which cost exactly \$14,000. No gain is recognized on the sale and the new residence is considered to have a basis of \$10,000 (\$14,000 cost less \$4,000 gain which was not recognized, in effect, the \$10,000 investment A made in his old personal residence).

Assume further, that A, in 1961, sold residence (Y) for \$16,000 and immediately purchased a new residence (Z) for \$20,000. The \$6,000 gain on the sale of residence (Y) is not recognized and the new residence is considered to have a basis of \$14,000 (\$20,000 cost less \$6,000 gain which was not recognized, in effect, the \$10,000 investment A made in his first residence plus the additional investment of \$4,000 made when he purchased his third residence).

Finally, assume that in 1962 A sold residence (Z) for \$20,000 and moved into an apartment which he occupied for the following 2 years. A \$6,000 gain (\$20,000 selling price less \$14,000 adjusted basis) is recognized for tax purposes in taxable year 1962 (in effect the \$4,000 gain which was not recognized when he sold the first house, plus the \$2,000 gain which was not recognized when he sold the second house).

Section 206 of the bill adds a new section 121 to the code which, in general, provides for an exclusion from gross income of gain from the sale of a residence if the taxpayer on the date of the sale or exchange—

(1) has attained age 65; and

(2) owned and used the property as his principal residence for 5 or more years in the 8-year period prior to sale or exchange.

However, the bill limits the amount of gain which is to be excluded to the gain attributable to the first \$20,000 of adjusted selling price of the property. This rule is illustrated by the following examples:

Example (1).—Taxpayer A, who otherwise qualifies under the provisions of section 121, sells his residence, having an adjusted basis of \$8,000 for \$20,000. Since the adjusted sales price does not exceed \$20,000, the entire \$12,000 gain is excluded from gross income.

Example (2).—Taxpayer B, who otherwise qualifies under the provisions of section 121, sells his residence, having an adjusted basis of \$28,000, for \$40,000. Since the adjusted sales price exceeds \$20,000, only that proportion of the total gain which \$20,000 bears to the adjusted sales price (\$40,000) is excluded from gross income. Therefore, only one-half of the \$12,000 gain, or \$6,000, is excluded from the gross income.

The bill also provides as follows—

1. That the exclusion may be claimed by a taxpayer only once in a lifetime.

2. Taxpayers are given an election as to whether or not they wish it to apply to gain from a sale or exchange which would otherwise qualify for exclusion.

3. If the taxpayer reinvests part of the proceeds of sale of an old residence in a new residence, the provisions of existing law and the provisions of the bill might both apply. Provision is therefore made to apply the exclusion provision of the bill, before applying the deferral provisions of present law, so that the taxpayer will receive the full benefit of the exclusion.

Example.—Individual A, who otherwise qualifies under the provisions of section 121, sells his residence, having an adjusted basis of \$8,000, for \$20,000. A invests \$10,000 of the proceeds of sale in a new residence. By electing section 121, A would exclude the entire \$12,000 gain from gross income. The adjusted basis of the new property would be its cost, \$10,000. Under present law, \$10,000 of gain would be recognized (\$20,000 adjusted sales price less \$10,000 investment in new residence) and the adjusted basis of the new residence would be \$8,000.

4. Proceeds from the sale of property used in part as a residence, and in part for other purposes, for example, a doctor's office, must be allocated to determine the gain attributable to sale of the residence and the exclusion may apply only to such portion of the gain.

5. The provision applies to tenant-shareholders in a cooperative housing corporation and provides that the holding of stock may satisfy the 5-out-of-8-year holding and use requirements.

6. If the taxpayer is married, his spouse must agree to his election since an election by one spouse is considered an election by both spouses and neither may thereafter elect, even though the property sold may have been the property of only one spouse.

7. If property is held jointly by husband and wife, or is community property, and one spouse meets the 65-year age, and 5-out-of-8-year holding and use requirements, both spouses are considered to meet such requirements and the exclusion may apply. Thus, if a husband and wife own property jointly, and the husband is 65 years of age, the provision may apply even though the wife may be less than 65 years of age.

8. A person whose spouse is deceased is considered to meet the 5-out-of-8-year holding and use requirements if they were satisfied by the deceased spouse. However, the survivor must not have remarried and must meet the 65-year age requirement.

Comparison of H.R. 8363 with other bills providing similar benefits

	H.R. 8363	H.R. 10650 (Revenue Act of 1962 as passed by the Senate)	S. 316 (introduced by Senators Dirksen and Carlson)
Age requirement.....	65.....	65.....	60.....
Amount of gain excluded from gross income.....	Up to \$20,000.....	Up to \$30,000.....	No limit.
Requirement relating to use as a personal residence.....	5 years (within an 8-year period prior to sale). do.....	5 years.....	5 years.
Ownership requirement.....	do.....	None (other than at time of sale).	None (other than at time of sale).
Number of times the provision may apply to a taxpayer.	Once.....	No limit.....	No limit.

Effective date

This provision applies to sales, exchanges, and other dispositions after December 13, 1963.

Revenue effect

This provision will result in a revenue loss of approximately \$10 million a year.

**SUMMARY OF H.R. 8363, THE REVENUE
ACT OF 1963, AS PASSED BY THE U.S.
HOUSE OF REPRESENTATIVES**

**PART C
STRUCTURAL CHANGES
SECTIONS 207-213**

**PREPARED FOR THE USE OF
THE COMMITTEE ON FINANCE
OF THE U.S. SENATE
BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION**



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CONTENTS

PART C

	Page
Section 207. Denial of deduction for certain State, local, and foreign taxes..	47
Section 208. Personal casualty and theft losses.....	49
Section 209. Charitable, etc., contributions and gifts.....	50
Section 210. One-percent limitation on medicines and drugs for those over age 65.....	52
Section 211. Care of dependents.....	53
Section 212. Moving expenses.....	56
Section 213. Interest on loans incurred to purchase certain insurance and annuity contracts.....	61

111

SECTION 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES

Generally, under present law, all State and local taxes are deductible except death and gift taxes and local improvement taxes. The deductible State and local taxes can be conveniently divided into those of general application and those more or less specialized as follows:

General local taxes and local revenues produced:

1. Real and personal property taxes, \$18 billion.
2. Income taxes, \$3.9 billion.
3. General sales and gross receipts taxes, \$5.4 billion.

Special local taxes and local revenues produced:

1. Gasoline taxes, \$3.5 billion.
2. Alcoholic beverage taxes, \$0.7 billion.
3. Tobacco taxes, \$1.1 billion.
4. Auto and drivers' licenses, \$1.8 billion.
5. Selective sales or excise taxes not included above (such as those on admissions, room occupancy, etc.), \$1.8 billion.

Figures above include all collections in connection with business, investment, or personal activities.

The *general* taxes listed above account for about \$7.5 billion of the total \$10 billion of taxes deducted as personal deductions per year. The *special* taxes above listed account for about \$2.5 billion of the taxes deducted as personal deductions per year.

The bill eliminates the personal deduction for the special taxes above described. Specifically, it provides that only the following State, local, and foreign taxes may be deducted;

- (1) State and local, and foreign, real property taxes.
- (2) State and local personal property taxes.
- (3) State and local, and foreign, income, war profits, and excess profits taxes.
- (4) State and local general sales taxes.

The bill defines the term "personal property tax" as any ad valorem tax imposed on an annual basis in respect of personal property. So, for example, a personal property tax collected annually on automobiles measured solely by their value will continue to be a deductible tax.

The bill defines a "general sales tax" as a tax imposed at one rate in respect of a broad range of items. It provides, however, that a tax may be a "general sales tax" even though food, clothing, medical supplies, and motor vehicles are taxed at a lower rate or completely exempted.

The bill continues existing law by providing that all the special taxes for which personal deductions are abolished shall, nevertheless, continue to be fully deductible to the extent that they are business expenses or expenses incurred in the production of income. Under the bill these taxes will be fully deductible even though they were incurred in connection with the acquisition of a capital item.

Under existing law, in one exceptional case, it is provided that taxes paid for a local improvement may be deducted. The bill removes this special exception from the law.

It is estimated that this section will increase the revenues by about \$520 million per year. About 40 percent of this revenue increase is produced by the elimination of the deduction for gasoline taxes. The provisions are to apply to taxable years beginning after December 31, 1963.

SECTION 208. PERSONAL CASUALTY AND THEFT LOSSES

Under present law taxpayers who itemize may claim a personal deduction for a loss of property held for purely personal use (i.e., property not used in connection with a trade or business and not held for the production of income) if this loss arises from fire, storm, shipwreck or other casualty, or from theft.

Under the bill personal losses arising from casualty will continue to be deductible but only to the extent that the loss from each casualty exceeds \$100. Thus, if a taxpayer has an automobile accident in which he suffers damage to his automobile of \$175 he will be entitled to a deduction of \$75 (\$175 minus \$100). If, during the same year, he has a second accident in which he suffers damage to his car of \$125 he will be able to deduct an additional \$25. However, if a taxpayer has an automobile accident in which the total damage is only \$90 he will not be able to deduct anything.

It is intended that a liberal rule be applied in determining what constitutes a single casualty. Thus, damage to a house attributable to both wind and water will be considered from a single casualty if all the damage is the result of a single storm.

The \$100 limitation applies to a joint return by a husband and wife as well as to a separate return of either. Thus, if they file separate returns each is subject to a separate \$100 floor with respect to each casualty. On the other hand if they file a joint return they are together subject to only one \$100 floor with respect to each casualty, whether the loss is sustained with respect to jointly or separately owned property.

The bill does not, however, change existing law with regard to property used in the trade or business or held for the production of income. Accordingly, losses of property used in a business will continue to be fully deductible.

The provision applies to losses sustained after December 31, 1963. It is expected to increase revenues by \$50 million a year.

SECTION 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS

Certain organizations added to additional 10-percent charitable limitation

In general under present law individuals are allowed a deduction for charitable contributions up to 20 percent of their adjusted gross income for charitable contributions. However, an additional 10 percent is also permitted for contributions to churches, schools, hospitals, certain medical research organizations, and certain organizations affiliated with State colleges or universities. Thus charitable contributions may total up to 30 percent if at least 10 percent is contributed to charities in this special class.

The bill amends the code to permit this additional 10-percent deduction for gifts to charitable organizations which are supported in substantial part by a governmental unit or by direct or indirect contributions from the general public. The organizations which will generally in the future qualify for the additional 10-percent deduction are publicly or governmentally supported museums of history, art or science, libraries, community centers to promote the arts, organizations providing facilities for the support of opera, symphony orchestra, ballet, or repertory drama, and organizations such as the American Red Cross, United Givers Fund, etc.

The bill retains the present 20-percent limitation on the deductions for contributions made to private foundations.

The revenue effect of this section is negligible. It will apply to contributions made in taxable years beginning after December 31, 1963.

Five-year carryover of certain charitable contributions made by corporations

Under present law corporations are allowed a maximum charitable contribution deduction of 5 percent of their taxable income. Any charitable contribution deductions which exceed this maximum may be carried forward and used in the 2 following years to the extent the maximum limitations for those years permit.

The bill provides that corporations are to have a 5-year carry-forward of unused charitable contribution deductions instead of the 2-year carryforward provided by present law.

The loss of revenue caused by this amendment is expected to be negligible. It will apply to contributions made in taxable years beginning after December 31, 1963.

Future interests in tangible personal property

Under present law a taxpayer may obtain a charitable contributions deduction by "giving" a future interest in tangible personal property, such as a valuable picture or other art object. In order to do this a taxpayer "gives" a picture to a museum but reserves a life estate for himself. The picture remains in the possession of the giver until his death, but he is nevertheless permitted a deduction equal to the value of the future interest transferred. (The value of the interest trans-

ferred is the full value of the picture minus the value of the life estate retained.) Similarly, a husband and wife may "give" a picture and retain a life estate for their joint lives. Of course it is also possible to reserve a life interest in a son, daughter, or grandchild.

The bill permits the practice above described to continue in the future to the extent that a life estate is reserved in the donor (or in the joint donors where the gift is by a husband and wife). However, the bill provides that no deduction is to be allowed for the gift of a future interest in tangible personal property if an interest in such property is retained for the benefit of a brother, sister, spouse, ancestor, or descendant of the giver or for a corporation or trust with which the giver has a close relationship. As under existing law, a deduction will be permitted for the gift of a future interest if the intervening interest or interests are given to persons who are strangers to the giver.

This amendment will have no revenue effect. It will apply to transfers after December 31, 1963.

SECTION 210. ONE PERCENT LIMITATION ON MEDICINES AND DRUGS FOR THOSE OVER AGE 65

Present law provides that amounts paid for medicines and drugs, which would be taken into account in computing total medical expenses for purposes of the 3-percent medical expense floor, are deductible only to the extent the amounts paid for medicine and drugs exceed 1-percent of the adjusted gross income. The 1-percent limitation on medicine and drugs applies to all taxpayers without regard to their age. The 3-percent limitation, however, does not apply in the case of the taxpayer and his spouse where either of them is 65 or over, nor does it apply in the case of medical expenses of the mother or father of the taxpayer or his wife where the parent is 65 or over and receives his principal support from the taxpayer.

The bill would amend present law by making the 1-percent limitation with respect to amounts paid for medicine and drugs inapplicable in the case of the taxpayer and his spouse where either of them is 65 or over and also with respect to such amounts paid for the care of a dependent mother or father of the taxpayer or his spouse if the mother or father has attained age 65 before the end of the year and is a dependent of the taxpayer, i.e., the 1-percent floor would be inapplicable in cases where the 3-percent floor is now inapplicable.

No change in existing law is made with respect to the types of items which are deductible as medicine and drugs. Section 213 of the 1954 code, relating to the deductibility of medical expenses does not define the term; however, the regulations under that section define the term "medicine and drugs" to include only items which are legally procured and which are generally accepted as falling within the category of medicine and drugs (whether or not requiring a prescription) but not to include toiletries or similar preparations (such as toothpaste, shaving lotion, shaving cream, etc.) nor to include cosmetics (such as face creams, deodorants, hand creams, etc., or any similar preparation used for ordinary cosmetic purposes) or sundry items. The regulations also provide that amounts expended for items which are excluded from the term "medicine and drugs" are not to constitute amounts expended for "medical care."

The amendment would apply to amounts paid for medicines and drugs in taxable years beginning after December 31, 1963, and is expected to result in a revenue loss of \$10 million in a full year of operation.

SECTION 211. CARE OF DEPENDENTS

Under present law, certain taxpayers are allowed to deduct up to a total of \$600 for expenses they pay for the care of—

1. Their children and stepchildren who are age 11 or under; and
 2. A dependent of any age if such dependent is physically or mentally incapable of caring for himself,
- if the expense is incurred for the purpose of enabling the taxpayer to be gainfully employed.

The classes of taxpayers to whom this deduction is allowed are as follows:

1. All women; and
2. Men who are widowed, divorced, or legally separated.

However, if a woman is married to a husband who is not incapable of self-support, because mentally or physically defective, an income limitation applies to reduce the amount otherwise deductible \$1 for each dollar the combined adjusted gross incomes of the taxpayer and her spouse exceed \$4,500 so that no deduction is allowable once the combined adjusted gross incomes of husband and wife equal or exceed \$5,100 per year. This limitation does not apply, however, if the woman is legally separated from her husband or, under certain circumstances, if she has been deserted by her husband. Moreover, it does not apply if the woman is married to a man who is incapable of self-support because mentally or physically defective.

Section 211 of H.R. 8363 amends existing law in three respects. First, the amount allowed as a deduction is increased from \$600 to \$900 if the taxpayer incurs the additional \$300 expense during a period when he or she has two or more dependents for whom "child care" deductions are allowable. However, the \$600 limit contained in present law continues to apply in the case of working wives whose husbands are not mentally or physically incapable of self-support.

The second change from present law expands the category of dependents for whom "child care" deductions are allowed to include children of the taxpayer who are 12 years of age.

The application of the first two changes is illustrated by the following example:

Example.—Taxpayer A, a single woman, has two dependent children ages 9 and 12. In order to accept full-time employment, the taxpayer had to make arrangements for care of the children from 8 a.m. to 5:30 p.m. Such arrangements were made at a private school to which A sends the children for the months of January through June and September through December. The children spend the months of July and August with A's sister. The tuition at school is \$50 per month per student. A pays her sister \$200 for the summer months for food, clothing, and incidental expenses of the children for those months. The oldest child attains age 13 on August 7 of the taxable year.

Under present law, the taxpayer could deduct \$500 as "child care" expenses, that is, the \$50 paid the school for the 9-year-old child for 10 months. It is not necessary to allocate the amount paid the school between that part which represents tuition and that part which represents true care. No amount would be deductible with respect to the \$500 paid the school for the 12-year-old child. The amounts paid the taxpayer's sister are not deductible since amounts paid for food and clothing are not considered as expended for "care."

Under the bill, the taxpayer could deduct \$800 as "child care" expenses, instead of \$500. Such amount would consist of the \$200 paid the school for September through December with respect to the 9-year-old and the \$600 paid the school for January through June with respect to both the 9- and 12-year-old. The additional amount paid the school for the September through December period would not be deductible since it was paid for the care of the older child after she attained age 13.

Finally, the classes of taxpayers to whom deductions are allowed is extended to include married men whose wives are incapacitated or institutionalized for a period of at least 90 consecutive days (or a shorter period if terminated by death). The bill defines an incapacitated wife as one who is institutionalized or incapable of caring for herself because mentally or physically defective. The bill defines an institutionalized wife as one who is an inpatient, resident, or inmate of a public or private hospital, sanitarium, or other similar institution for the purpose of receiving medical care or treatment. If the taxpayer's wife is incapacitated but not institutionalized for 90 consecutive days, the bill limits the deduction in the same manner as present law limits the deduction in the case of working wives, other than those whose husbands are incapacitated, by reducing the amount otherwise deductible by \$1 for each dollar the combined adjusted gross incomes of the husband and wife exceed \$4,500. Therefore, no deduction will be allowed a husband with an incapacitated wife when his adjusted gross income, combined with that of his wife, equals or exceeds \$5,100 if the taxpayer has one dependent for whom "child care" deductions are allowable and \$5,400 if the taxpayer has two or more dependents for whom "child care" deductions are allowable. The income limitation does not apply to a husband whose wife is institutionalized for 90 consecutive days, whether or not in 1 taxable year, or a shorter period if terminated by her death.

The application of this change is illustrated by the following example:

Example.—H and W are married and have a 4-year-old child and an 8-year-old child. On January 1, W is injured in an automobile accident and spends the following 10 weeks in a hospital. After leaving the hospital, W is bedridden at home for an additional 10 weeks during which time she is incapable of caring for herself. For this 20-week period, H employs a housekeeper to take care of the child and also to perform regular household duties. He pays the housekeeper \$50 a week, for a total of \$1,000. W is considered to be an "incapacitated wife" since she was incapable of caring for herself because physically defective, including the time she was in the hospital, for at least 90 consecutive days. H's income for the taxable year is \$4,600. Of the total expense of \$1,000, assume \$800 is allocable to the care of the child and \$200 is allocable to care of the house.

Under present law, H may not deduct any amount on account of "child care" expenses.

Under the House bill, H may deduct \$700 as "child care" expense. The total allowable deduction is computed as follows: The \$800 incurred while W was incapable of self-care, reduced by \$100 (because H's income exceeds \$4,500 by \$100). If W had been institutionalized for 90 days, rather than incapacitated for 90 days, the income limitation would not apply. The amount expended is subject to the \$900, rather than \$600, limitation because the expenses were incurred at a time when H had two dependents with respect to whom "child care" deductions are allowable.

Revenue effect

This provision will result in a revenue loss of \$5 million a year.

Effective date

The amendments made by this provision apply to taxable years beginning after December 31, 1963.

SECTION 212. MOVING EXPENSES

By administrative action in 1954, it was ruled that amounts received by an existing employee in reimbursement of amounts expended by him to move his family and household belongings from one place of employment to another permanent place of employment are not includible in his gross income. (Rev. Rul. 54-429, 1954-2, C.B. 53.) Such amounts are considered to have been spent for the convenience of the employer. On the other hand, reimbursements for moving expenses received by new employees from their employers are includible in gross income. (Rev. Rul. 55-140, 1955-1, C.B. 317.) Moreover, no deduction is allowed by present law with respect to expenses for which no reimbursement is received. (Rev. Rul. 54-429, *supra*.) But in 1960, Congress provided for a special exclusion from gross income of certain amounts received by employees (between January 1, 1950, and September 30, 1955, inclusive) or reimbursement for moving himself and his immediate family, household goods, and personal effects to a new place of residence in order to accept employment with a corporation which was operating a scientific laboratory for the Atomic Energy Commission. A special period for claiming refund of taxes already paid also was provided. (Public Law 86-780, approved September 14, 1960.) This special exclusion followed litigation of the *Woodall* case.¹

Section 212 does not change the effect of the 1954 ruling with respect to reimbursements received by existing employees from their employers. Chart I, which follows, indicates the present tax treatment of reimbursed expenses of old employees.

CHART I.—*Tax treatment of moving expenses of old employees*

Category	Service position	Court cases *
Reimbursed expenses of old employees:		
1. Transportation costs of employee.	Excludable (Rev. Rul. 54-429, 1954-2, C.B. 53).	Case law in accord with IRS position. Some question as to which employees are "new" and which are "old." See <i>Cavanagh</i> , 36 T.C. 300; <i>Vandermaer</i> , 36 T.C. 607.
2. Meals and lodging of employee and family en route.	Excludable (Rev. Rul. 54-429).	Case law in accord with IRS position.
3. House-hunting trip of employee and spouse.	No exclusion or deduction (Rev. Rul. 54-429).	No cases.
4. Temporary living allowance at new employment location before moving into new home.	No exclusion or deduction (Rev. Rul. 54-429; non-acq. in <i>Cavanagh</i>).	Exclusion permitted by Tax Court in <i>Cavanagh</i> , 36 T.C. 300.
5. Loss on sale of personal residence.	No exclusion or deduction...	Tax Court in <i>Bradley</i> , 39 T.C. 64, held reimbursement to be compensation and overruled <i>Schairer</i> , 9 T.C. 549 (which had permitted reimbursement to be treated as part of sales price of residence).

* For description of the facts of the cases referred to, see notes at end of explanation.

¹ 255 F. 2d 370: for description of the facts of this case see notes at end of explanation.

Under section 212, new employees, whose reimbursements for moving expenses are includible in their gross income, and employees who are not reimbursed for their moving expenses are allowed a special deduction for certain of their moving expenses. In order for this new deduction to apply, the employee's commuting distance to his new principal place of work must be at least 20 miles more than to his former principal place of work. If the individual has never worked before, or if he has recently been unemployed for a long period of time, so that he has no former principal place of work, the new deduction will not apply unless the commuting distance from his former residence is at least 20 miles. Mileage, for this purpose, is to be measured on a straight-line basis. Ordinarily, this 20-mile test will have application only to moves within the same metropolitan area.

In addition to satisfying the 20-mile test, an employee who is not reimbursed for moving expenses must demonstrate the permanence of his employment in the new locality by remaining employed in the new locality, on a full-time basis, for at least 39 weeks in the 12-month period immediately following his arrival in the "general area of his new principal place of work." It is not required that these employees work for the same employer for the full 39 weeks, but merely that they be employed in the same general locality for that period.

If a new employee is partially reimbursed for his moving expenses so that the 39-week employment test applies with respect to some of his expenses, but not all of them, then, in the absence of a specific allocation by the employer, the amount of the reimbursement is first allocated to deductible items and if a balance remains, it is then allocated to nondeductible items. This rule (of the House committee report) favors the taxpayer by limiting the portion of the moving expense deduction which (as explained below) may be recaptured under the 39-week rule. The rule can be illustrated as follows:

Example 1.—Employee M, who lives in Washington moves to Philadelphia on February 1 to begin a new employment with Widget Corp. He incurs expenses of \$600 with respect to his move, of which \$400 would be deductible under this provision. Widget Corp. reimburses M for \$300 of his expenses without allocating any portion of the reimbursements to specific expenses. Under the rule of the House committee report, the \$300 is allocated to the \$400 of deductible expenses, thereby reducing to \$100 the amount which may be recaptured under the 39-week rule. The amount of M's expenses which will be deductible is \$400.

The special deduction under this provision covers the "reasonable expenses" (1) of moving household goods and personal effects from the former residence to the new residence, and (2) of traveling (on one trip) from the former residence to the new residence. Traveling expenses for this purpose include the cost of means and lodging while en route. It also includes costs attributable to persons other than the employee if they are members of his household (both at the old residence and at the new residence). Expenses of traveling do not include living expenses following the date of arrival at the new place of residence, living expenses preceding the date of departure from the former residence, expenses of house or apartment hunting, or expenses of trips for purposes of selling property.

The "reasonable expenses" of moving, referred to in this provision, relate to expenses which are reasonable under the circumstances of the particular move. Moving expenses are to be considered reasonable to the extent they are paid or incurred for movement by the shortest and most direct route available by the conventional mode or modes of transportation actually used. Moving expenses to which this provision applies include the costs of transportation of household goods and personal effects and expenses of packing, crating and en transit storage of such goods and effects (including storage at the new destination prior to actual unloading at the new residence). Expenses to which this provision does not apply include costs (and losses) incurred in the acquisition, or disposition, of property, penalties for breaking leases, mortgage penalties, expenses of refitting rugs or draperies and tuition fees.

This special deduction for moving expenses is subtracted from gross income in computing adjusted gross income, in effect permitting the employee to deduct his moving expenses and still qualify for the standard deduction.

For withholding tax purposes, the definition of the term "wages" is modified to exclude reimbursement for which it is reasonable to believe that a moving expense deduction is allowable. This modification continues withholding of tax by the employer from nondeductible reimbursements paid to new employees. (Rev. Rul. 59-236, 1959-1 C.B. 234 treats reimbursed moving expenses of new employees as compensation for social security and unemployment tax purposes, as well as for income tax purposes.)

Under the provision, as already indicated, an employee who is not reimbursed for his moving expenses (or who is only partially reimbursed) must remain employed on a full-time basis (but not necessarily with the same employer) at the new location for 39 weeks in order for his moving expenses to be deductible. Where the move occurs after April 1 (in the case of a calendar year taxpayer) the 39-week test cannot be satisfied in the same taxable year in which the move occurred. In order to prevent the necessity of filing amended returns, the provision permits the deduction to be taken in the return for the year in which the moving expense was incurred, if the 39-week test can still be satisfied then the expense may be deducted on that return. However, if an employee deducts his moving expenses under this rule and it subsequently develops that he does not satisfy the 39-week employment test, then an amount equal to the amount of the deductions taken which are subject to the 39-week rule must be included in the employee's gross income for the subsequent taxable year. This can be illustrated as follows:

Example 2.—Assume the same facts as in example 1, except that the move occurred on August 1, 1964. (The 39-week employment test would be satisfied on May 1, 1965.) On February 15, 1965, when M files his 1964 tax return, he believes he will satisfy the 39-week test and so he elects to deduct on his 1964 return the \$400 of his moving expenses which are deductible. On April 1, 1965, however, M obtains new employment in New York and immediately moves his family there. Since M did not satisfy the 39-week test, but did deduct his moving expenses, \$100 must be added to his gross income for 1965. (This \$100 is the amount of the deduction subject to the 39-week rule

after applying the \$300 nonallocated partial reimbursements to the \$400 of deductible expenses.)

On the other hand, if the employee decides not to elect to deduct his moving expenses until he has satisfied the 39-week rule, then after he has satisfied this test, he may file an amended return for the year in which the moving expense was incurred and claim the moving expense deduction on the amended return.

Revenue estimate

This provision is estimated to reduce revenues by about \$60 million in a full year of operation.

Effective date

This provision is to apply with respect to moving expenses incurred after December 31, 1963, in taxable years ending after that date.

Digest of cases referred to in chart I

John E. Cavanaugh, 36 T.C. 300 (1961). Taxpayer, who lived in Alexandria, Va., and who worked in Washington, D.C., entered into a new employment contract with Lockheed Aircraft Corp. in April 1956. Under the agreement taxpayer was to work in Lockheed's Washington, D.C., office from May 21, 1956, until July 1, 1956, at which time he was required to move to Burbank, Calif. (The delay from May to July was to provide time for taxpayer's wife to give birth to an expected child.) Lockheed paid the \$1,398.51 expenses of moving taxpayer's family and household goods from Alexandria to Burbank, and also reimbursed taxpayer for \$280 living costs incurred by him which were in excess of the ordinary living expenses of his family while his household effects were in transit. The tax collector argued that taxpayer was a "new" employee and the exclusion for moving expenses did not apply. Taxpayer argued the amount of moving expenses paid by Lockheed were not gross income. The Tax Court found that taxpayer was *not* a "new" employee and that the exclusion applied.

Alan J. Vandermade, 36 T.C. 607 (1961). Taxpayer who lived in New Jersey (and worked in New York) was "loaned" by his employer to a California corporation for a 6-month period commencing March 1, 1954. About July 1, 1954, taxpayer agreed to terminate his employment with his New York employer and begin work for the California corporation. The California employer paid the \$2,557.04 expenses of moving taxpayer's family and household goods to Palo Alto, Calif., in July 1954. Taxpayer did not include in his income the amount of the moving expenses paid by his new employer. The tax collector argued the amount was taxable income. The Tax Court contrasted Rev. Rul. 54-429 (exclusion for old employees) with Rev. Rul. 55-140 (inclusion for new employees) and determined the case was governed by Rev. Rul. 55-140, since the agreement by the new employer to pay moving expenses was a motivating cause for taxpayer's move to Palo Alto, citing *U.S. v. Woodall*, 255 F. 2d, 370 (CA-10).

Otto Sorg Schairer, 9 T.C. 549 (1947). Taxpayer, who lived in Bronxville, N.Y., was required by his employer to move to Princeton, N.J., in 1943, to direct electronic research activities. RCA, the employer, offered to, and did, reimburse taxpayer for any loss he might incur on the sale of his Bronxville residence. The tax collector

argued that the amount of the reimbursement, \$14,644.20, was additional compensation; the taxpayer argued it was only part of the selling price of his residence. The Tax Court noted that the move to Princeton, N.J., was for the convenience of the employer and held that "the payment by RCA was definitely a part of the sale transaction."

Harris W. Bradley, 39 T.C. 652 (1963). Taxpayer who lived in Wilmington, Del., accepted new employment in Richmond, Va., and moved there in 1957. He was unable to sell his Wilmington residence for its estimated value (\$22,000–\$24,000) and subsequent to commencing his new employment, his new employer guaranteed him a sales price of \$23,500 by agreeing to reimburse him for the difference between that amount and the actual sales price for the property when it was sold. The residence was sold in 1958 for \$18,500 and taxpayer received \$5,000 from his employer. Even considering the \$5,000 there was no gain on the sale. The tax collector argued the \$5,000 was incentive compensation; the taxpayer, relying on *Schairer*, argued it was part of the sale price of the residence. The Tax Court declined to follow *Schairer*, and held the amount of the reimbursement to be compensation. The court noted that since the *Schairer* decision in 1947, "the complexion of the law materially changed on the subject of what is and what is not compensation (citing *Lo Bue*, 351 U.S. 243 (1956) and *Duberstein*, 363 U.S. 278 (1960))."

Sherrill O. and Doris M. Woodall, 255 F. 2d 370 (C.A. 10, 1958). Taxpayer, who lived in Dallas, Tex., accepted an offer of employment from Sandia Corp. in 1954 which required him to move to Albuquerque, N. Mex. One of the conditions of the offer and acceptance was that taxpayer would be reimbursed for expenses incurred in moving his family and personal and household effects to Albuquerque. These amounted to \$592.28. Taxpayer did not include this amount in his income. Following payment of a deficiency which he payed, taxpayer sued for refund. The U.S. District Court of New Mexico found on a fact that relocation of taxpayer and reimbursement of his relocation expenses were for the convenience of the employer, and decided for the taxpayer that the amount did not constitute gross income. Even if it did, said the court in its conclusions—

then plaintiffs are entitled to take as a deduction against said reimbursement the amount of travel and moving expenses actually incurred by them.

The U.S. Court of Appeals for the 10th Circuit reversed the lower court and held the reimbursement did constitute gross income. It was "in the nature of a cash bonus as an inducement to accept employment." Moreover, appellate court ruled that moving expenses were not deductible.

SECTION 213. INTEREST ON LOANS INCURRED TO PURCHASE CERTAIN INSURANCE AND ANNUITY CONTRACTS

Existing law disallows a deduction for interest paid with respect to money borrowed to purchase a single premium life insurance, endowment, or annuity contract. For purposes of this disallowance if substantially all the premiums on the contract are paid in the first 4 years, or if an amount is deposited after March 1, 1954, with the insurer for the payment of a substantial number of future premiums on the contract, then the contract is considered to be a "single premium" contract.

On the other hand, an interest deduction is not denied under present law with respect to money borrowed to pay annual premiums on a life insurance, endowment, or annuity contract. This, together with the fact that the interest earned on life insurance contracts is not taxable, has prompted the sale of policies designed to maximize the tax advantage (to persons in high income brackets) of financing life insurance with borrowed money.

The insurance policies with which this provision is concerned are described either as "bank loan insurance," or as "minimum deposit insurance." Bank loan insurance refers to insurance purchased with money borrowed from a bank or other lender, while "minimum deposit insurance" refers to insurance purchased with money borrowed directly from an insurance company. In either case, the amount borrowed is likely to equal the increase in the cash surrender value of the policy.

The operation of a typical minimum deposit plan for paying insurance premiums can be illustrated by the following chart which appeared in the Doctors Tax Report of March 18, 1963.

Endowment at age 90

[Age of insured, 35; annual gross premium, \$2,201.50; amount of policy, \$100,000]

Policy year	Annual dividend beginning of year	1-year term insurance cost	Annual loan	Cumulative loan	4.8 percent annual gross interest	Total gross outlay	Net interest cost in 50-percent tax bracket	Annual net outlay	Net estate benefit
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.....	0	0	372	372	18	1,848	9	1,839	99,628
2.....	152	6	1,803	2,175	104	357	52	305	100,025
3.....	182	12	1,832	4,007	192	392	96	296	100,169
4.....	213	19	1,858	5,865	282	432	141	291	100,291
5.....	245	28	1,882	7,747	372	475	186	289	100,009
6.....	298	39	2,105	9,852	473	311	237	75	100,054
7.....	351	50	1,726	11,578	556	731	278	453	100,122
8.....	407	62	1,747	13,325	640	750	320	430	100,005
9.....	462	77	1,768	15,093	724	773	362	411	100,153
10.....	517	93	1,787	16,880	810	801	405	396	100,046
11.....	572	112	1,807	18,687	897	832	449	384	100,017
12.....	652	135	1,822	20,509	984	847	492	355	100,146
13.....	690	160	1,839	22,348	1,073	906	537	370	100,052
14.....	728	190	1,851	24,199	1,162	975	581	394	100,121
15.....	755	223	1,862	26,061	1,251	1,059	626	434	100,030
16.....	781	262	1,871	27,932	1,341	1,153	671	483	100,102
17.....	808	305	1,878	29,810	1,431	1,252	716	537	100,080
18.....	836	353	1,884	31,694	1,521	1,356	761	596	100,076
19.....	865	410	1,888	33,582	1,612	1,471	806	665	100,038
20.....	895	473	1,891	35,473	1,703	1,592	852	741	100,002
21.....	925					(925)		(925)	

Source: Doctors Tax Report, Mar. 18, 1963.

For purposes of this chart it is assumed that the insured is age 35 at the time the contract is purchased; that he pays tax at the 50-percent bracket for all the years involved; that the face amount of his policy is \$100,000; and that the annual premium is \$2,201.50. It is also assumed that interest of 4.8 percent is charged by the company on the amount loaned by it to the insured for the purpose of paying premiums on his policy. Finally, it is assumed that in order to keep his insurance protection at \$100,000, the insured purchases each year term insurance generally equal to the amount of the loan outstanding.

Turning to the chart, column 2 shows the estimated amount of policyholder dividends on the policy over the term of payments. Column 3 indicates the cost of term insurance necessary to keep total insurance protection at (or near) \$100,000. Column 4 illustrates the amount of the annual increase in cash surrender value of the policy. This is the amount loaned to the insured each year. Note that under this particular policy there is an immediate cash surrender value in the year the policy is issued. Column 5 shows the total amount of loans outstanding at the end of each year during the term of payment. Column 6 shows the amount of interest which must be paid each year on the accumulated loans shown in column 5. This is also the amount deducted by the insured on his tax return.

Column 7 indicates the total amount the insured must pay over to the insurance company each year after taking into account the "loan" of the increase in the cash surrender value, the policyholder dividends, the cost of term insurance, and the interest paid on the loan. It is determined by taking the annual premium, decreased by the amount in column 2, increased by the amount in column 3, decreased by the amount in column 4, and finally, increased by the amount in column 6.

Column 8 shows the net interest cost after taking into account the effect of deducting interest on the tax return. (As already indicated, it is assumed that the insured is in the 50-percent tax bracket.) Thus, column 8 represents 50 percent of column 6. Column 9 shows the net out-of-pocket cost each year to the insured after taking into account the effect of the tax deduction. This is the amount which should be compared with the stated premium for the policy of \$2,201.50.

Finally, column 10 shows the total amount of life insurance protection in force each year during the term of payment. It represents the original face amount of the policy, reduced by the amount of the annual loans to the policyholder, and increased by the amount of term insurance issued each year.

Bank loan insurance enables an individual to purchase considerably more insurance than he could otherwise afford. This can be demonstrated by comparing the net outlay under this minimum deposit insurance arrangement with the cost of \$100,000 of term insurance for the same individual as follows:

	After 10 years	After 20 years
Cost of term insurance (10-year term).....	\$6,550	\$18,750
Net outlay under minimum deposit plan (col. 9).....	4,785	9,744
Savings under minimum deposit plan.....	1,765	9,006

This provision of the bill denies a deduction for interest paid on indebtedness incurred or continued to purchase or carry a life insurance, endowment, or annuity contract pursuant to a plan of purchase which contemplates the systematic direct or indirect borrowing of part or all of the increases in the cash value of the contract. For purposes of this disallowance it makes no difference whether the borrowing is done through the insurance company or from a bank or other lender. (Single premium policies, and policies treated as single premium policies, which are provided for under the existing law, are not dealt with by this provision.)

Under this provision it is not necessary for the disallowance rule to apply, that the plan of purchase involve the systematic borrowing of part or all of the increases in the cash surrender value of the policy to pay premiums over the entire life of the contract so long as the plan contemplates such systematic borrowing to pay premiums for a substantial number of years. Moreover, it is not necessary for the disallowance rule to apply that a systematic plan of borrowing be contemplated at the time the policy is purchased. The plan of borrowing which invokes the disallowance rule may begin at any time prior to payment of the fourth annual premium under the contract.

There are a number of exceptions to the general rule which prevent the disallowance rule from applying even where the annual increase in the cash surrender value of the policy is borrowed by the insured in order to help pay premiums. The first of these exceptions provides that the disallowance rule will not apply if no part of four of the annual premiums due during the 7-year period following the date the first premium is due under the contract is paid by means of indebtedness. This exception can be illustrated by the following examples:

Example 1.—On January 2, 1964, P purchases from an insurance company an endowment policy similar to the one described in chart No. 1 and pays the first premium at that time. Premiums are due under the policy on January 2, of each succeeding year. If P does not borrow to pay any part of four of the premiums due before January 2, 1971, then this provision will not apply to disallow deduction for interest paid with respect to amounts subsequently borrowed.

Example 2.—Assume the same facts as in example 1. P did not incur indebtedness in order to pay any part of the premiums due on January 2, 1964, 1965, 1966, 1967, or 1968. He did borrow from the insurance company to pay the premiums due on January 2, 1969, 1970, 1971, and 1972. Since P did not borrow to pay part of four premiums due in the 7-year period beginning with the payment of the first premium on January 2, 1964, no amount of interest paid by P

with respect to the amounts subsequently borrowed will be disallowed as a deduction.

It is provided in the provision that if there is a substantial increase in the premiums under the contract a new 7-year period is to begin on the date the first increased premium is paid.

The second exception provides that the disallowance rule is not to apply if the total amount of interest paid or accrued in the taxable year with respect to amounts borrowed to pay premiums does not exceed \$100.

The third exception provides that the disallowance rule is not to apply if the interest involved was paid with respect to indebtedness incurred because of an "unforeseen substantial loss of income or unforeseen substantial increase in financial obligations." The operation of this exception can be illustrated as follows:

Example 3.—On January 2, 1964, P purchases from an insurance company an endowment policy similar to the one described in chart No. 1 and pays the first premium at that time. Premiums are due under the policy on January 2 of each succeeding year. P does not incur indebtedness to pay any part of the premiums due January 2, 1964, 1965, or 1966. On June 1, 1966, he becomes seriously ill and incurs substantial medical expenses in 1966, 1967, 1968, 1969, 1970, and 1971. Because of these unforeseen substantial medical expenses, P finds it convenient to borrow against the cash surrender value of his policy in order to pay the premiums due on January 2, 1967, 1968, 1969, 1970, and 1971. Since P used borrowed money to pay part or all of four of the premiums due in the 7-year period following payment of the first premium, the first exception does not apply. Nevertheless, no amount of interest is disallowed since the indebtedness was incurred because of an unforeseen substantial increase in P's financial obligations.

Example 4.—Assume the same facts as in example 3, except that instead of P's becoming ill in June 1966 his son graduates from high school at that time and enters college in the fall of 1966. P incurs substantial expenses in 1966, 1967, 1968, 1969, 1970, and 1971 in connection with his son's education. For this reason he finds it convenient to borrow against the cash surrender value of his policy in order to pay the premiums due on January 2, 1967, 1968, 1969, 1970, and 1971. Since P used borrowed money to pay part or all of four of the premiums due in the 7-year period following payment of the first premium under the policy, the first exception does not apply. Moreover, the exception for unforeseen increases in financial obligations does not apply since the expenses of a college education for P's son could be foreseen at the time P purchased the policy. Therefore, under the general rule of the new provision, the interest with respect to the amount borrowed by P to pay premiums on his policy are disallowed as a deduction. However, if the expenses of a college education substantially increase after issuance of a policy, then to that extent, the borrowing would come within the exception for unforeseen substantial increases in financial obligations.

The fourth exception provides that the disallowance rule is not to apply if the interest is paid or accrued on indebtedness incurred in connection with the taxpayer's trade or business. Under this exception, for example, if the taxpayer pledges his insurance contract as part of the collateral for a loan to finance capital improvements for his business, no part of the interest on this loan would be disallowed as a deduction under this provision.

Revenue estimate

This provision is estimated to increase revenues by about \$10 million when the provision is fully effective.

Effective date

This provision is to apply with respect to interest paid or accrued in taxable years beginning after December 31, 1963, but only with respect to contracts purchased after August 6, 1963.

**SUMMARY OF H.R. 8363, THE REVENUE
ACT OF 1963, AS PASSED BY THE U.S.
HOUSE OF REPRESENTATIVES**

**PART D
STRUCTURAL CHANGES
SECTIONS 214-223**

**PREPARED FOR THE USE OF
THE COMMITTEE ON FINANCE
OF THE U.S. SENATE
BY THE
STAFF OF THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION**



OCTOBER 1963

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CONTENTS

PART D

	Page
Section 214. Employee stock option and purchase plans.....	67
Section 215. Interest on certain deferred payments.....	76
Section 216. Personal holding companies.....	79
Section 217. Treatment of property in case of oil and gas wells.....	87
Section 218. Treatment of iron ore royalties.....	92
Section 219. Capital gains and losses.....	94
Section 220. Gains from dispositions of certain depreciable realty.....	102
Section 221. Averaging.....	105
Section 222. Repeal of additional 2-percent tax for corporations filing consolidated returns.....	114
Section 223. Reduction of surtax exemption in case of certain controlled corporations, etc.....	115

III

SECTION 214. EMPLOYEE STOCK OPTIONS AND PURCHASE PLANS

Under present law, in the case of stock options which qualify as employee "restricted stock options," no income tax is imposed either when the option is granted or at the time it is exercised. Instead tax is imposed whenever the stock involved is sold by the employee. Those stock options where the option price is at least 95 percent of the market price of the stock at the time the option is granted are taxed at capital gains rates on the entire amount of any gain realized by the employee at the time he sells the stock. Where the option price is between 85 and 95 percent of the market price at the time the option is granted, the difference between the option price and the market price of the stock at the time of the grant of the option is treated as ordinary income. This ordinary income is realized for tax purposes only when the employee sells the stock (at that time if the gain is less than the spread between the option price and the fair market value at the time the option was granted, this lesser amount is taxed as ordinary income). Any additional gain at the time the stock is sold in the case of these 85 to 95 percent options is treated as a capital gain.

In the case of restricted stock options, employers are not allowed any deduction for the amount of the gain realized by the employee whether the gain is treated as capital gain or ordinary income.

Under present law for a stock option to be classified as a restricted stock option and be eligible for the treatment outlined above—

1. the option price must be at least 85 percent of the market price of the stock at the time the option is granted;
2. the stock and/or option must be held by the employee for at least 2 years after the date of the granting of the option and the stock in any event must be held for at least 6 months;
3. the option must not be transferable other than at death;
4. the individual may not be a 10-percent shareholder in the corporation (unless the option price is at least 110 percent of the fair market value and certain holding requirements are met); and
5. the option must be for a period of not more than 10 years.

The House bill departs from present law in that it provides tax treatment for stock options for key executives different from that provided for options which are made available to all, or practically all, of the employees of a company. In the House bill, the former group, namely stock options designed primarily for key executives, is referred to for the future as "qualified options," while the options available to all employees of a company are referred to as "employee stock purchase plans." The House bill divides the tax treatment of employee stock options and purchase plans into five provisions. First are the general rules applicable to both; second, the special rules applicable to qualified options (that is, generally options for key employees granted after June 11, 1963); third, the special rules

applicable to employee stock purchase plans (in general those granted after June 11, 1963); fourth, restricted stock options (which cover both of the two categories mentioned above but generally only for options issued before June 12, 1963); and, fifth, certain definitions and special rules applicable to stock options and stock purchase plans in both the past and the future. The material presented here deals first with qualified stock options and then with employee stock purchase plans. The provisions dealing with restricted stock options which are only those options issued in the past, represent a continuation of existing law and therefore are not discussed.

The bill also provides that where there is a compensating use tax in connection with a general sales tax, the compensating use tax shall be deductible in the same manner as the general sales tax.

A. Qualified stock options

As under present law, generally in the case of qualified stock options the House bill provides that no income tax is due either at the time the option is granted or at the time the option is exercised and the stock is transferred to the employee. Moreover, any gain realized upon the sale of the stock by the employee, generally, will be capital gain. Generally, no business expense deduction is allowed the employer corporation (or a parent or subsidiary of that corporation) at any time with respect to this option.

The House bill, however, provides two exceptions to the general rule that tax is not imposed until the stock is sold by the employee and results in capital gain at that time. As will be explained more fully subsequently one of the requirements of a qualified option is that the price under the option not be less than the fair market value of the stock at the time the option is granted. An exception to this, however, relates to the case where an attempt has been made in good faith to price the option at its fair market value at the time of the grant, but this market value, nevertheless, was underestimated. Problems in this respect ordinarily can be expected to occur in the case of unlisted stock. In these cases, where there was good faith, the option is not to be disqualified, but $1\frac{1}{2}$ times the difference between the option price and the actual fair market value of the stock at the time the option is granted (or the difference between the option price and fair market value at the time of exercise, if this is smaller) is to be taxed as ordinary income at the time the option is exercised. For example, if the option price is \$100 and it subsequently is established that the fair market value of the stock at the time of the grant was \$110, rather than \$100, then the individual will have to report as ordinary income \$15 ($\$10 \times 1\frac{1}{2}$) and this will have to be included in his income for the year in which he exercises the option. This, however, assumes that the price of the stock was at least \$115 at the time of the exercise of the option. If it was only \$112, the amount treated as ordinary income would be limited to \$12, since the amount so taxed may not exceed the difference between the option price and the price of the stock at the time of the exercise of the option. This rule is intended to discourage attempts to undervaluing the stock, without disqualifying the option where the undervaluation was unintentional.

A second exception to the general rule described relates to the requirement that the qualified stock option must be held for at least 3 years.

The House bill provides that in those cases where the stock is not held for 3 years, the option will still be a qualified option but the spread between the option price and the value of the stock at the time the option is exercised will be treated as ordinary income when the stock is sold. However, in these cases the amount of ordinary income taxed to the employee may not exceed his gain. Thus, if the option price for the stock was \$100, at the time of exercise was \$150, but after that time fell to \$130 on the date of sale, then the amount of ordinary income is restricted to the difference between the option price and the price of the stock on the date of the sale or to \$30. Where the price of the stock at the time of the sale is less than the option price, or in the above example had fallen below \$100, to say \$95, there will be no ordinary income and the difference between the option price and the price at which the stock is sold—namely, \$5—will be treated as capital loss. On the other hand, if the stock is sold at a price that is higher than the price on the date the option is exercised—in the above example, assume the price had gone up to \$175—then in addition to the \$50 treated as ordinary income (the difference between the option price and the value of the stock on the date of exercise) there will also be \$25 treated as capital gain.

The determination of the type of capital gain, that is, whether it is short term, class B, or class A, as in the case of any other stock holding will depend on the length of time the stock has been held. Thus, any gain where the stock has been held beyond the 3-year period specified with respect to qualified stock options will result in a class A gain, with a 40-percent inclusion factor and a 21-percent maximum rate. Where the stock is disposed of in less than 3 years, and, in addition to the amount treated as ordinary income, there is an amount treated as capital gain, this capital gain will be either short term (if the stock is held 6 months or less) or class B (if it is held more than 6 months but not more than 2 years) or class A (if held more than 2 years). Assume, for example, that stock purchased under a qualified option for \$100, when the market price of the stock is \$125, is sold 2½ years later for \$160. In this case, since the 3-year requirement has not been met, there would be \$25 of ordinary income. However, the remaining gain, \$35, would be a class A capital gain. If the stock had been held only 6 months, it would have been a short-term gain and if held 6 months or more but less than 2 years, a class B gain.

As under present law, if an employee dies after having purchased stock but before holding it for the specified period of time, this holding period requirement is waived. Similarly, as under present law, a requirement, subsequently described more fully, that an individual must be in the employ of the corporation involved to within 3 months before the date of exercise of the option also is waived in the case of the death of the employee before exercise.

A transfer to a trustee in bankruptcy (or a similar fiduciary) of shares of stock acquired under a qualified stock option is not considered to be a "disposition" of this share. As a result, there will be no ordinary income recognized at that time although a capital gains tax may be due.

To be eligible for the tax treatment provided for qualified stock options, the employee receiving the stock must meet two conditions

and the stock option or plan under which it is granted must meet seven conditions.

The two conditions which must be met by the individual receiving stock are as follows:

1. He must not sell (or otherwise dispose of) his stock within 3 years of the date of exercise of the stock option. As indicated previously, when all of the conditions except this one are met, any gain recognized at the time of the sale of the stock will be treated as ordinary income to the extent of the spread between the option price and the value of the stock on the date of exercise. Present law requires that to receive the capital gains treatment the individual must hold the option and/or stock for at least 2 years and must hold the stock alone for at least 6 months.

2. The individual involved, for the entire time from the date of the granting of the option until 3 months before the date of the exercise of the option must be an employee of the company granting the option.¹ Existing law requires the individual to be in the specified employment at the time of the granting of the option and on the day ending 3 months before the date of the exercise of the option, but does not require that he be in that employment in the intervening period of time.

The seven conditions which the stock option or plan under which it was granted must meet are as follows:

1. The options must be granted under a plan which specified the number of shares of stock to be issued and also the employees or class of employees eligible to receive the options. This plan must be approved by the stockholders of the corporation within 12 months before or after the plan is adopted. There is no comparable requirement in existing law although stocks listed on the exchange, according to exchange rules, must have obtained stockholder approval before the issuance of stock options.

2. The options must be granted within 10 years of the time the plan is adopted, or approved by the stockholders, whichever is earlier. There is no comparable provision in existing law.

3. The option by its terms must be exercisable only within 5 years of the time it is granted. Under existing law the option by its terms must be exercisable only within 10 years of the time it is granted.

4. The option price must equal or exceed the fair market value of the stock at the time the option is granted. An exception to this provides that where the option price is less than the market price, but the underestimate was also unintentional, then this condition is to be considered as met. However, as previously indicated, in such cases the individual is taxed as ordinary income on $1\frac{1}{2}$ times the difference between the option price and the fair market value at the time of issuance (but not on more than the difference between the option price and the sales price), and this amount is taxed at the time of the exercise of the option (rather than at the time of the sale of the stock). This requirement is a substitute for two provisions in existing law: First, existing law provides that where the option price is 85 percent of the fair market value of the stock at the time of issuance, the spread of up to 15 percent in such cases is treated as ordinary income at the time of the sale of the stock (similar treatment is provided in the case

¹ Alternatively he may be an employee of a parent or subsidiary of that corporation or of a corporation (or its parent or subsidiary) which has assumed the option of a corporation of which he was an employee as a result of a corporate reorganization, liquidation, etc.

of variable price options where the option price varies with the price of the stock but under its formula is at least 85 percent of the fair market value of the stock on the date of issuance). Second, present law provides that where the option price is within 95 percent of the fair market value of the stock on the date of issuance, the entire amount of any gain is to be treated as capital gain when the stock is sold.

5. Generally, the option by its terms must not be exercisable while there is outstanding any qualified stock option or restricted stock option which was granted to the employee at any earlier time. Two exceptions to this rule, however, are provided where the outstanding option is a restricted stock option (those granted before June 12, 1963). First, such a restricted stock option may be canceled at any time before January 1, 1965, without adversely affecting the exercise of a qualified stock option subsequently issued. Second, in the case of a restricted stock option which by its terms is made available to the employee only in installments, those installments which cannot yet be exercised at the time of the granting of a new qualified option are not to prevent the exercise of this second option until the installments become exercisable. Existing law does not prevent the exercise of a new option while the old option is outstanding, but does provide that significant modifications in the terms of an option will result in its being treated as a new stock option (as a result, it then must meet the 85-percent or 95-percent requirement as of a new date).

6. The option by its terms must be nontransferable other than by death and must be exercisable during the employee's lifetime only by him. The same provision is in present law.

7. The employee immediately before the option is granted generally must not own stock representing more than 5 percent of the voting power or value of all classes of stock of the employer corporation (or its parent or subsidiary). In the case of small businesses, however, an employee may own up to 10 percent of the voting power or value of the stock without the option being disqualified. For a corporation with equity capital of less than \$1 million this percentage is to be 10 percent and for one with equity capital of \$2 million or more it is to be 5 percent. Between these two levels of equity capital the allowable percentage of holdings decreases gradually from the 10-percent level for a company with \$1 million of equity capital down to the 5-percent level for a corporation with equity capital of \$2 million or more. Equity capital for this purpose is the assets of the corporation (adjusted for any change in their basis) less any indebtedness of the corporation. Where a parent or subsidiary also is involved, adjustments are made which in effect delete intercorporate ownership. For this purpose, the individual is considered to own stock owned directly or indirectly by brothers and sisters, wife, ancestors, or lineal decedents. Stock owned directly or indirectly by a corporation, partnership, estate, or trust for this purpose is considered as being owned proportionately by the shareholders, partners, or beneficiaries. Present law provides that an option does not qualify if the individual owns more than 10 percent of the voting power of all classes of stock of the employer corporation (or its parent or subsidiary). However, under present law this requirement is removed if at the time the option is granted the option price is at least 110 percent of

the fair market value of the stock price and the option is not exercisable for a period of more than 5 years and is not exercisable within the first year after its grant. The constructive ownership rules under existing law are the same as under the bill.

Generally, the new provisions in the case of qualified stock options apply to options granted to an individual after June 11, 1963. However, the new provisions do not apply to an option granted after that time if granted pursuant to a binding, written contract entered into before June 12, 1963.

B. Employee stock purchase plans

Except for the addition of nondiscrimination requirements and the requirement of stockholder approval, the tax treatment of employee stock purchase plans continues under the bill to be substantially the same as the tax treatment of restricted stock options under existing law. As a result, no income is to be reported for tax purposes by the employee either at the time the option is granted or at the time it is exercised. Similarly, no deduction is available to the employer corporation (or parent or subsidiary) with respect to the employee stock purchase plan.

Under these purchase plans the option may be issued at a price as low as 85 percent of the market value of the stock at the time of the granting of the option, or 85 percent of the fair market value of the stock at the time the option is exercised. Where this is done, this spread between the option price and the market value at the time the option is granted, upon subsequent sale of the stock by the employee is treated as ordinary income, although in no event is the amount to be taxed as ordinary income to exceed the gain realized on the stock. Under existing law, the rules are substantially the same except that, in addition, variable price options are available and the price which may be established under such options are somewhat more liberal than the 85-percent rule provided under the bill at the time of exercise. Thus, under these options any formula can be used in establishing price so long as it, if exercised, would result in a price equal to at least 85 percent of the fair market value of the stock at the time the option is granted.

As under existing law ordinary income treatment is provided in the case of employee stock purchase plans where the stock is disposed of before the expiration of the applicable holding period. The rule of present law is continued to the effect that the option and/or stock must be held for a period of at least 2 years and the stock itself held for a period of at least 6 months if the capital gains treatment is to be fully available. Where this holding period is not complied with, then any spread between the option price and the price of the stock at the time the option is exercised will be treated as ordinary income when the stock is sold or otherwise disposed of. The specified amount is treated as ordinary income in this case without regard to whether this is greater or less than the gain realized on the stock at the time of the sale. Where the gain otherwise realized is less than this amount treated as ordinary income, the specified amount is still treated as ordinary income but a capital loss is recognized equal to the difference between the market price of the stock at the time of exercise and the sale price of the stock.

Apart from the two cases just described where ordinary income may be realized, any other gain recognized on the sale of purchase-plan stock results in capital gain.

To be eligible for the tax treatment provided for employee stock purchase plans, the employee receiving the stock must meet two conditions and the stock option, plan or offering under the plan must meet nine requirements.

The two conditions which must be met by the individual receiving the stock are as follows:

1. The individual must hold the option and/or stock for a period of 2 years and must hold the stock alone for a period of at least 6 months. Where this is not done, as previously indicated, the spread between the option price and the price of the stock at the time the option is exercised generally is treated as ordinary income when the stock is sold. This is a continuation of existing law.

2. The individual involved for the entire time from the date of the granting of the option until 3 months before the date of the exercise of the option must be an employee of the company granting the option.² This is the same as the requirement in the case of qualified stock options which, as previously indicated, differs only slightly from existing law.

The nine conditions which the stock option, plan, or offering must meet are as follows:

1. The plan must provide that the options are to be granted only to employees of the corporation involved (or its parent or subsidiary). This requirement is the same as under present law.

2. The plan must be approved by the stockholders of the corporation granting the option within 12 months before, or after, the date the plan is adopted. This is a new requirement which is the same as that also provided for qualified stock options.

3. Under the terms of the plan or stock offering, no employee may be granted an option if he owns 5 percent or more of the voting power or value of all classes of stock of the employer corporation (or its parent or subsidiary). Present law provides that an employee having more than a 10-percent interest in a corporation may not obtain restricted stock options at less than 110 percent of the market price of the option and an option in his case may not be exercisable more than after 5 years after the grant of the option or in the first year after the date of the grant.

4. Under the terms of the plan, or stock offering, the option must be available to all employees of the corporation except that there may be excluded one or more of the following four categories:

- (a) employees who have been employed less than two years,
- (b) employees who are part-time; i.e., employed 20 hours or less per week,
- (c) employees whose customary employment is not for more than 5 months a year, and
- (d) officers, supervisory personnel, or highly compensated employees.

This is one of the nondiscrimination requirements added. There is no comparable provision in existing law.

² Alternatively he may be an employee of a parent or subsidiary of that corporation or of a corporation or its parent or subsidiary which has assumed the option of a corporation of which he was an employee as a result of a corporation reorganization, liquidation, etc.

5. Under the terms of the plan, or stock offering, it must be specified that all employees granted options have the same rights and privileges except that the amount of stock which may be purchased by any employee may be a uniform percentage of total compensation or regular or basic compensation and the plan may provide a maximum number, or value, of shares to be purchased. This is one of the non-discrimination requirements added. There is no comparable provision in existing law.

6. Under the plan, or stock offering, the option price may not be less than 85 percent of the market value of the stock at the time the option is granted or not less than 85 percent of the market value of the stock at the time the option is exercised (whichever is the lesser). As previously indicated, this requirement is similar to that of present law although slightly more restrictive in some cases.

7. Under the terms of the plan, or stock offering, the period of time during which the option may be exercised must not exceed 5 years where the option price is not less than 85 percent of the value of the stock at the time of exercise. Where the option price is in part at least determined on the basis of the 85-percent rule at the time the option is granted, the option must be exercised within 27 months from the date of the grant of the option. Present law provides a 10-year period during which restricted stock options may be exercised.

8. Under the terms of the plan, or stock offering, the employee must not be able to purchase stock under the purchase plan at an annual rate in excess of \$25,000 a year. This is one of the nondiscrimination requirements added by the bill. There is no comparable provision under existing law.

9. Under the terms of the plan, or stock offering, the option must not be transferable by the individual other than by death and must be exercisable during his lifetime only by him. This requirement is the same as under existing law.

In the case of employee stock purchase plans, the new provisions generally apply to options granted after June 11, 1963. Existing law will continue to apply to stock options granted after that time but issued pursuant to a written plan adopted and approved before June 12, 1963, which at that time met the requirements as to nondiscrimination specified in numbers 4 and 5 immediately above, or which were being administered in a way which did not discriminate in favor of officers, supervisory personnel, or highly compensated employees.

C. Reporting requirements

The House bill provides that corporate employers are to report on the transfer of stock of the corporation to an employee in the case of "qualified stock options" and in the case of the transfer of the stock of the corporation to an employee in the case of the "restricted stock options" provided by present law.

The bill also provides in certain cases that the sale of the stock by an employee is to be reported by the corporation. The sale of the stock is to be reported in the case of stock acquired under a stock purchase plan, and also in the case of restricted stock options where the stock is purchased at a price between 85 and 95 percent of the value of the stock and some amount is reportable as ordinary income at the time of the sale of the stock by the employee.

A copy of the report going to the Government is also to be sent to the employee (or former employee) on or before January 31, after the year involved. In those cases where the employer is required to report on the sale of the stock by the employee, he is not expected to follow the ownership of the stock beyond the first transfer. For example, if an employee transfers stock to a street name and then subsequently sells the stock, the employer will report the first transfer of the stock to the street name but will not be required to report the subsequent sale. The reporting in these cases is merely to indicate the name, address, and account number of the individual employee involved and the stock sold by him.

D. Revenue effect

The changes made by this provision are not expected to have any appreciable revenue effect. To the extent that the changes made above result in a reduction in stock options issued, this is expected to increase deductions taken by corporations as they make deductible payments to employees in other forms.

SECTION 215. INTEREST ON CERTAIN DEFERRED PAYMENTS

A. "Unstated interest" provision

Present law.—Under present law when an individual sells a capital asset on the installment basis and makes no provision for interest payments on the installments, the full difference between his cost (or other basis) for the property and the sales price is treated as a capital gain to the seller (unless under section 1245, part of the gain is treated as ordinary income). The buyer takes as his cost for the property the total sales price paid. This can be illustrated by an individual having a capital or depreciable asset with a basis and fair market value of \$1,000 which he sells for \$1,300 payable in equal installments over a 10-year period. In this case, if no part of the payments are designated as interest payments and the seller elects to report any gain on the installment basis, then each payment will be treated partly as a return of capital and partly as a capital gain. Over the 10-year period, the taxpayer would report \$300 of capital gain rather than reporting this amount as ordinary income. The buyer would treat the \$300 as a part of his cost for the property which means that in the case of depreciable property the \$300 would be recoverable over the life of the property. (He might also be eligible for an investment credit with respect to this \$300.) If the \$300 had been specified as interest, the buyer would have received an interest deduction of \$300 spread over the 10-year period.

General rule under House bill.—The House bill provides that where property is sold on an installment basis and part of the payments are due more than 1 year from the date of the sale or exchange, if no interest payments are specified (or if "too low" interest payments are specified), a part of each of these payments due after the first 6 months is to be treated as an "unstated interest" payment (rather than as a part of the sales price).

The amount of this "unstated interest" is to be determined by using an interest rate specified by the Secretary of the Treasury or his delegate by regulations. The House report indicates that this interest rate is to be the going rate of interest and is to be no higher than the rate at which a person in reasonably sound financial circumstances and with adequate security could be expected to borrow from a bank. It is suggested that a 5-percent rate appears appropriate under existing circumstances.

With this interest rate, the proportion of each of the installment payments in the case of a sale or exchange of property which is to be considered as interest is to be determined in the following manner: First, the present value of each installment payment is determined based upon the specified interest rate discounted semi-annually. Second, the total of these present values of the installment payments are deducted from the total of the installment payments. The amount remaining is the total "unstated interest." Third, this unstated interest then is assumed to be spread evenly over the total payments involved.

Thus, if a specified payment represents one-tenth of the total payments, it would be assumed to include one-tenth of the total unstated interest.

The method just described for computing the unstated interest in each installment, relates to the case where no interest payments are specified in the contract. Where interest payments are provided but at a rate more than 1 percent lower than the rate specified by the Secretary of the Treasury, the present values of these actual interest payments are determined along with the present values of the remainder of the payments. The unstated interest then is the total of the payments to be received under the contract minus the total present values, including the present values of the actual interest payments, reduced by the actual interest payments.

The House provision specifies that the regulations are to provide for the discounting of payments on a 6-month basis and are to ignore for this purpose any interest payments due within the first 6 months.

Where an installment contract provides for the payment of some interest, no unstated interest is to be computed unless the actual interest payments represent interest computed at a rate more than 1 percent below the rate specified by the Secretary of the Treasury. Thus, if a 5-percent rate is specified by the Secretary, no unstated interest will be computed where the interest actually provided is 4 percent or more.

For purposes of the section payment for property in the form of a note or other evidence of indebtedness of the purchaser is not to be treated as a payment since otherwise it would be possible to exchange non interest bearing forms of indebtedness for the installment contract for the property. However, payments made on this indebtedness are treated as if they were payments made on the installment contract itself.

Where some or all of the payments are indefinite as to their size—for example, where payments are in part at least, dependent upon future income derived from the property—the unstated interest is to be determined separately for each of these indefinite payments as if it were the only payment involved. Also, where there is a change in the amount due under a contract, the unstated interest is to be recomputed at the time of each change.

The House bill specifies five situations in which this provision is not to apply or is to be modified:

1. It is not to apply unless the sale price of the property is in excess of \$3,000.
2. If any of the amounts involved under the installment contract are carrying charges which presently are treated as interest from the standpoint of the purchaser then, in the case of the purchaser, such amounts are to be treated as interest payments for purposes of this provision.
3. In the case of the seller this provision is to apply only if some part of the gain (if any) from the sale or exchange of the property would be considered as gain from a capital asset, or gain from depreciable property.
4. It is not to apply in the case of payments with respect to patents which are treated as resulting in capital gain under present law.
5. It is not to apply where the property involved is exchanged for annuity payments which depend in whole or in part on the life ex-

pectancy of one or more individuals nor is it to apply to payments such as those for timber, coal, and iron ore (sec. 631). In this latter case, the provision does not apply because the transaction involved is not considered to be an installment contract.

Example.—The operation of this provision can be illustrated by assuming that an individual sells real property under a contract which provides that the purchaser is to make payments in three equal installments of \$2,000 each, with the installments being due annually in the first 3 years after the date of sale. Assume further that no interest is provided under the contract, and that the Secretary of the Treasury has prescribed by regulations that 5 percent per annum compounded semiannually is to be the rate of interest to be used under this provision.

The present value of the first \$2,000 payment discounted for 1 year at 5 percent (compounded semiannually) is \$1,903.63. The present value of the second payment similarly computed but discounted for 2 years is \$1,811.90. The present value of the third payment discounted for 3 years is \$1,724.59. The sum of the three present values of these three installment payments is \$5,440.12. Subtracting this amount from the total of the installment payments (\$6,000) leaves \$559.88 as the unstated interest. This unstated interest then is assumed to be attributable evenly to the three installment payments, \$186.63 to each.

Effective date.—This provision applies to payments made after December 31, 1963, on account of sales or exchanges of property occurring after June 30, 1963.

Revenue effect.—This provision is expected to result in a negligible increase in revenues.

B. Carrying charges

Present law.—Among the itemized deductions allowed taxpayers under present law is the deduction for interest payments. Administrative practice has long allowed as an interest deduction the portion of any carrying charges on installment purchases to the extent the interest element is stated separately. In 1954, Congress also provided that an interest deduction is to be available in case of carrying charges stated separately even though the interest charge cannot be ascertained directly. In these cases, the statute provides that the carrying charges are to be considered as interest up to an amount equal to a 6-percent interest charge computed on the average unpaid balance under the contract. This provision applies, however, only in the case of "personal property" purchased under an installment contract.

House bill provision.—The House bill amends the provision of present law which treats as an interest deduction carrying charges to the extent of 6 percent of the average unpaid balance under the contract, to extend this provision to cover payments for services sold under an installment contract. This would include, for example, such payments for services as college tuition.

This provision applies to taxable years beginning after December 31, 1963.

This provision is expected to result in a negligible loss of revenue.

SECTION 216. PERSONAL HOLDING COMPANIES

The individual income tax rates are steeply progressive up to 91 percent. On the other hand, the corporate rate on investment income generally does not exceed 52 percent and, in addition, because of the dividends received deduction the effective rate for a corporation on dividend income is less than 8 percent. For this reason if there were no special statutory provisions an individual owning stock and other valuable investments could save a large amount of income tax by placing all these investments in a corporation so that the income produced by them would be subject to tax only at the substantially lower rates. The personal holding company sections of the code (secs. 541-565) are intended to prevent the savings of income tax in this manner. Those sections apply only to corporations which are closely held and which have mostly personal holding company income. "Personal holding company income" generally includes dividend and interest income and in addition includes rents and royalties under certain conditions.

The bill makes numerous amendments in the personal holding company sections. Most of these amendments are intended to make avoidance of individual income tax through the use of a personal holding company more difficult than under present law. In view of the length of this section it will be discussed by separate topics.

New rate

The present rate of tax on "undistributed personal holding company income" is 75 percent on the first \$2,000 and 85 percent on the balance. Subsection 216(a) of the bill diminishes this rate to 70 percent on the entire amount. The rate is reduced because the individual income tax rates are also reduced by the bill. The 70-percent rate will be the new top individual rate under the bill in 1965 and thereafter.

New definition of personal holding companies

Under existing law a corporation is a personal holding company if at least 80 percent of its gross income is personal holding company income. The bill amends this definition to provide that a corporation is a personal holding company if at least 60 percent of its "adjusted ordinary gross income" is personal holding company income. It is important to note that the base, on which the percentage is computed, is changed.

Under the amendments made by the bill "ordinary gross income" is gross income minus the gains on capital assets and 1231 assets (depreciable business property). "Adjusted ordinary gross income" is ordinary gross income minus certain deductions to the extent attributable to rent income or to income from mineral oil and gas royalties or from working interests in oil and gas wells. These deductions are those for depreciation or depletion, property taxes and severance taxes, interest, and rent. Under the new rules many corporations, not now so classified, will become personal holding

companies. To illustrate this, let us assume we have a corporation which has \$60,000 income from dividends and \$40,000 income from a working interest in an oil well. The fixed charges above described incurred in connection with the oil well (depreciation, depletion, property taxes, severance taxes, interest, and rent) total \$10,000. Under existing law the corporation is not a personal holding company because only 60 percent (not 80 percent) of its gross income

$$\left(\frac{\$60,000}{(\$60,000 + \$40,000)} \right)$$

is personal holding company income. Under the bill amendments, however, the corporation is a personal holding company. The total "adjusted ordinary gross income" is \$60,000 plus \$40,000 minus \$10,000 or \$90,000. Accordingly, the percentage of this income

which is personal holding company income is 66⅔ percent $\left(\frac{\$60,000}{\$90,000} \right)$ which is more than 60 percent.

Excluded corporations—finance companies

The bill excludes from the application of the personal holding company sections certain domestic building and loan associations even though these associations may fail to qualify for the special income tax treatment afforded building and loan associations by the code.

Present law provides that certain classes of corporations are not to be treated as personal holding companies. Among the types of corporations so excluded are four different kinds of finance companies which are in general as follows: (1) Licensed personal finance companies classified as "small loan companies" by State law ("Russell Sage"); (2) other lending companies engaged in the small loan or consumer finance business; (3) a loan or investment company (such as a Morris Plan Bank) whose business consists substantially of receiving funds not subject to check and evidenced by certificates of indebtedness; (4) a finance company actively engaged in purchasing or discounting accounts or notes receivable or installment obligations or in making loans secured by any of these or by tangible personal property. This last class relates to business or factoring type loans.

The four sections excluding these special corporations contain various restrictions and limitations to prevent tax avoidance. The bill has eliminated all these four subsections and substituted a single subsection excluding all types of lending or finance companies in general terms. The requirements a finance company must meet to avoid classification as a personal holding company are as follows:

(1) 60 percent or more of its ordinary gross income must be derived directly from the active and regular conduct of a lending or finance business. The term "lending or finance business" for this purpose does not include dealing in obligations with a remaining maturity in excess of 60 months or dealing in bonds (income received from an 80-percent-owned subsidiary in the lending or finance business is also considered income from the lending or finance business);

(2) Its personal holding company income (excluding income from the finance business) must not be more than 20 percent of its ordinary gross income;

(3) Its business expenses must be 15 percent of its income up to \$500,000 income and 5 percent on the next \$500,000; and

(4) The loans to a shareholder who owns 10 percent or more of the stock must not exceed \$5,000.

New definitions of personal holding company income—New treatment of rent

In general, the bill makes no change in the way dividends and interest are treated for personal holding company purposes.

Rent.—A very important change is made in the way rent income is treated. Under existing law rent is not personal holding company income if the gross rent is 50 percent or more of gross income. Thus at the present time if a corporation has \$50,000 gross rent it may have up to \$50,000 dividend income without being a personal holding company even though the *net* rental income is zero. For this reason it is currently very easy to “shelter” personal holding company income through owning rental real estate.

Under the amendments made by the bill rent is personal holding company income unless the following two tests are *both* satisfied:

1. The “adjusted income from rents” is 50 percent or more of the “adjusted ordinary gross income.” For this purpose the “adjusted income from rents” is the gross rent decreased by the allocable depreciation, property taxes, interest, and rent paid. As has already been indicated the “adjusted ordinary gross income” is the ordinary gross income likewise decreased by depreciation, depletion, property taxes, severance taxes, interest and rent paid; and

2. The personal holding company income other than rent is 10 percent or less of the ordinary gross income (unadjusted).

Thus under the first test if a corporation has \$50,000 gross rent income and \$25,000 in the type of fixed charges above described, all attributable to the rent, its adjusted income from rent is \$25,000. Accordingly, if it has more than \$25,000 of other personal holding company income the rent income is also treated as personal holding company income.

Under the second test, if a corporation has \$45,000 of gross rent income and \$6,000 of dividend income, it is a personal holding company without regard to the amount of fixed charges since the personal holding company income other than rent is more than 10 percent of the ordinary gross income.

Mineral royalties.—An amendment having a generally similar effect to the amendment with respect to rents is made with respect to mineral, oil, and gas royalties. Generally speaking, under existing law such royalties are not personal holding company income if they total more than 50 percent of gross income and if the business deductions are 15 percent or more of gross income. Under the amendments made by the bill such royalties are personal holding company income unless such royalties diminished by the fixed charges are 50 percent or more of the corporation’s adjusted ordinary gross income (i.e., ordinary gross income also diminished by the fixed charges). In addition, the royalties are personal holding company income if other personal hold-

ing company income constitutes more than 10 percent of ordinary gross income (unadjusted).

Copyright royalties.—Under existing law copyright royalties are personal holding company income unless they are 50 percent or more of the gross income and the corporation has less than 10 percent other personal holding company income. In addition, the business deductions must be 50 percent or more of the gross income. Under the amendment the requirement that business deductions equal 50 percent of gross income is changed to provide that these deductions must equal 25 percent of ordinary gross income diminished by royalties paid and depreciation or amortization deductions with respect to royalties. In addition the bill defines copyright royalties to include payments for the right to use motion picture films except “produced films.”

Produced film rents.—Under present law payments received for permitting the exhibition of motion picture films are treated as rent. Under the amendments made by the bill payments for the use of a motion picture film generally will be considered copyright royalty income and treated as described in the preceding paragraph. However, an exception is made for the income received for permitting the exhibition of films produced by the corporation owning them. In the amendments made by the bill this type of income is called “produced film rents.” Produced film rents will not be treated as personal holding company income if such rents constitute 50 percent or more of the ordinary gross income of the corporation.

Liquidating dividends

Since it is the purpose of the personal holding company tax to compel the shareholders to pay the tax on dividend income, the tax applies only to income which is *not* distributed—specifically to “undistributed personal holding company income.” In essence this amount is the corporate income diminished by distributions to shareholders. However, the present statute provides that “undistributed personal holding company income” is reduced not only by dividend distributions but also by *distributions in liquidation* even though in this latter type of distribution the shareholders are not taxed on dividend income. Thus under existing law there is no personal holding company tax on a corporation in the taxable year in which it liquidates and the shareholders pay no tax on dividend income (although they may pay on capital gains).

Under the amendments made by the bill the above-described result is changed. Accordingly, under the bill a personal holding company will have to either pay the personal holding company tax or distribute its income as a dividend in the year in which it liquidates.

There is also a problem in the case in which a subsidiary corporation is liquidated into its parent and both corporations are personal holding companies. Under existing law, in some circumstances, such a liquidation may result in a *decrease* in the undistributed personal holding company income of the parent for the year of the liquidation and for the 2 succeeding years. The amendments made by the bill eliminate these effects of a liquidation.

“Would have been” corporations

The bill provides special treatment in several respects for corporations which were not personal holding companies under the old law but may become personal holding companies because of the bill. A corporation qualifies for this special treatment if:

(1) It was not a personal holding company for at least one of its two most recent taxable years ending before the enactment of the bill; and

(2) It would have been a personal holding company for such year, if the bill had then already been enacted.

For convenience a corporation which qualifies is referred to as a “would have been.”

Liquidation before January 1, 1966.—The bill provides that if a “would have been” corporation is liquidated and all its property distributed before January 1, 1966, then none of the new personal holding company provisions are to apply to it (except the provision dealing with liquidation distributions). This rule does not apply to a tax-free liquidation of one corporation into another (sec. 332), unless the parent is also liquidated within 90 days after the last distribution in liquidation of the subsidiary and before January 1, 1966.

One-month liquidations before January 1, 1966.—Section 333 of the Internal Revenue Code provides for certain special elective treatment for distributions received in a 1-month liquidation of a domestic corporation. Under that section, if the individual shareholders have properly elected, they are taxed—

(1) On *dividend* income to the extent of their allocable share of the accumulated earnings and profits; and

(2) On the capital gain realized to the extent of the amount by which the earnings and profits are exceeded by the sum of the cash in the corporation and the fair market value of stocks and securities acquired by the corporation after December 31, 1953. In other words, the stocks and securities acquired after that date are treated like cash.

Except to the extent mentioned the shareholders are not taxed because of property in kind received, but such property has a basis in their hands equal to their basis for the stock surrendered, adjusted for gain recognized on the liquidation.

The bill provides that if, before January 1, 1966, a would-have-been corporation is liquidated under section 333 then the shareholders are taxed:

(1) On their allocable shares of the earnings and profits *as class B capital gains* and not as dividend income; and

(2) On the capital gain realized to the extent of the amount by which the earnings and profits are exceeded by the sum of the cash in the corporation and the fair market value of stocks and securities acquired by the corporation after December 31, 1962 (*instead of 1953*).

Except to the extent mentioned the shareholders are not taxed because of property in kind received, but such property has a basis in their hands equal to their basis for the stock surrendered, adjusted for gain recognized on the liquidation. The special treatment for earnings and profits will not apply to any earnings and profits acquired after August 1, 1963, from a corporation which was not a would-have-been.

One-month liquidations after December 31, 1965.—Special provision is made for any would-have-been corporation which—

- (1) Has unpaid debts on August 1, 1963,
- (2) Notifies the Secretary before January 1, 1967, that it may wish to avail itself of this special provision, and
- (3) Liquidates before the end of the year in which it pays off its debts, or, if earlier, the year in which it could have paid off its debts using all its post-1963 earnings and post-1963 depreciation reserves.

Under the amendments made by the bill, if a corporation of the type described is liquidated after December 31, 1965, in a liquidation to which section 333 applies then the shareholders are taxed—

(1) On their allocable shares of the earnings and profits accumulated before January 1, 1966, as class B capital gains (and not as dividend income). In addition, they are taxed on earnings and profits accumulated after December 31, 1965, as dividend income.

(2) On the capital gains realized to the extent that all the accumulated earnings and profits are exceeded by the sum of the cash in the corporation and the fair market value of stock and securities acquired by the corporation after December 31, 1962.

Except to the extent mentioned, the shareholders are not taxed because of the property in kind received, but such property has a basis in their hands equal to their basis for the stock surrendered, adjusted for gain recognized on the liquidation. The special treatment for earnings and profits accumulated before January 1, 1966, does not apply to any earnings and profits acquired after August 1, 1963, from a corporation which was not a would-have-been.

Deduction for qualified indebtedness.—This is a special deduction taken in computing “undistributed personal holding company income” available to any would-have-been corporation which has “qualified indebtedness.” Generally speaking, qualified indebtedness is debt outstanding on August 1, 1963, or debt substituted for such debt. The deduction is for amounts used to retire the debt, as well as for amounts irrevocably set aside for this purpose. However, the amount used in payment (or in a set-aside) must be reduced by depreciation deductions taken and by the amount of capital gains excluded in computing personal holding company income (since these amounts are also available to pay debts). A carryover of unused deductions is provided for. Proper adjustment is made when depreciable property is disposed of.

Increase in basis with respect to certain foreign personal holding companies

Under existing law when a decedent leaves stock in a personal holding company, the basis of such stock to his estate (or to the person inheriting it) is the decedent’s basis or the fair market value at the time of death, whichever is less (sec. 1014(b)(5) of the Internal Revenue Code).

The bill amends the Internal Revenue Code to provide that when stock in a corporation which was a foreign personal holding company, for its last taxable year before enactment of the bill, is transferred at death and the decedent’s basis for such stock is less than its fair

market value the basis of the stock shall be increased by the amount of Federal estate tax attributable to the net appreciation in value. This may be illustrated by assuming that a decedent leaves stock of a foreign personal holding company which had a cost basis to him of \$100,000 but had a fair market value at death of \$1,100,000. Under the amendments made by the bill the basis of this stock to the estate will be \$100,000 plus the amount of Federal estate tax attributable to the \$1 million appreciation in the stock.

One-month liquidations of foreign personal holding company.—Section 333 of the Internal Revenue Code provides for certain special elective treatment for distributions received in a 1-month liquidation of a domestic corporation. Under that section, if the individual shareholders have properly elected, they are taxed—

(1) On dividend income to the extent of their allocable share of the accumulated earnings and profits, and

(2) On the capital gain realized to the extent of the amount by which the earnings and profits are exceeded by the sum of the cash in the corporation and the fair market value of stocks and securities acquired by the corporation after December 31, 1953. Except to the extent mentioned the shareholders are not taxed because of property in kind received, but such property has a basis in their hands equal to their basis for the stock surrendered, adjusted for gain recognized on the liquidation.

However, under existing law section 333 does not apply to foreign corporations.

The bill provides that section 333 is to apply to a foreign corporation if—

(1) Such corporation was a foreign personal holding company for its most recent taxable year ending before the date of enactment of the bill,

(2) All the stock of such corporation was owned on August 15, 1963, and at the time of liquidation by individuals and estates,

(3) The transfer of all the property in liquidation occurs within 1 of the first 4 calendar months ending after the date of enactment of the bill, and

(4) Under section 367 of the code it is established to the satisfaction of the Secretary or his delegate in advance of the liquidation that the liquidation is not in pursuance of a plan having as one of its principal purposes the avoidance of Federal income taxes.

The bill further provides that if a person received property in a liquidation of a foreign personal holding company under the provisions just described, and such person dies leaving this property, then the basis of this property in the hands of the estate or of the person inheriting it shall be determined in the same manner as the basis of stock of a foreign personal holding company would be determined on such a transfer. In other words, if the decedent's basis is less the fair market value the basis to the estate will be the decedent's basis plus the Federal estate tax attributable to the appreciation of the property in the hands of the decedent.

Foreign personal holding company income

Certain changes are made in the section of the code dealing with foreign personal holding company income (sec. 553). The effect of

these changes is to preserve existing law with regard to this type of income. These statutory changes are required solely because of the changes made as to (domestic) personal holding company income.

Revenue effect

It is estimated that the personal holding company amendments will increase revenue \$15 million a year. Generally the personal holding company provisions are made effective with respect to taxable years beginning after December 31, 1963.

SECTION 217. TREATMENT OF PROPERTY IN CASE OF OIL AND GAS WELLS

The percentage depletion deduction allowed an owner of an interest in oil and gas wells is measured by $27\frac{1}{2}$ percent of the gross income from his share of production but, if less, 50 percent of his net income from the "property." This net income limitation is important only to the operator who generally undertakes all of the business risks involved in the exploration, development, and operation of the property. Intangible drilling and development costs (on exploratory and development wells) are treated as business expenses deductible by him in reducing his share of the gross income from production (normally eight-eighths, if a fee owner—seven-eighths or less if a lessee) to his net income from the "property."

Under existing law he has the option to aggregate or combine any two or more operating mineral interests (regardless of tract boundaries, or the number of deposits) if they are within the statutory concept of an "operating unit"—treating any such aggregation as combined into a single "property," and treating each operating mineral interest (within the operating unit area) left out of such combination as a separate "property." This option permits him to combine into a single "property" operating mineral interests having a high ratio of net income to gross income with those having a low ratio so that the 50 percent of net income limitation has little or no effect. This may be illustrated by considering the following aggregation of two properties involving separate deposits not in the same tract:

	Gross income	Operating costs	Net income before depletion	Percentage depletion deductible ($27\frac{1}{2}$ per cent of gross or, if less, 50 per cent of net)
Property A.....	\$100,000	\$70,000	\$30,000	\$15,000
Property B.....	100,000	10,000	90,000	27,500
Total, treated separately.....				42,500
Total, if aggregated.....	200,000	80,000	120,000	55,000
Net increase in depletion deduction due to aggregation.....				12,500

Before the 1954 act the term "property" by long-established interpretation was generally accepted as meaning each interest in each deposit in each separate tract or parcel of land (whether freehold or leasehold). Under this test (the 1939 code "lease" rule) only contiguous tracts or parcels, even if acquired by the same lease or deed, could be treated as a single tract or parcel of land. Similarly, each deposit in each tract or parcel of land was treated separately until (under early administrative practice) taxpayers were given the option (often

it was difficult to determine how many deposits there were in a single tract) to aggregate or combine and treat as a single "property" the operating mineral interests in two or more separate deposits underlying a single tract or parcel of land. Those deposits not included in such aggregation were treated as separate properties.

By 1954 the soundness of these earlier technical limitations respecting the term "property" as applied to the hard minerals became doubtful where a single mining operation crossed tract (of land) boundaries to extract mineral deposits extending under adjacent or nearby tracts. In that year Congress, by adopting the "operating unit" test, allowed the aggregation or combination of such operating mineral interests in different properties operated as a unit to be treated as a single "property." In 1958 Congress adopted detailed rules in the case of hard minerals. Generally, they provided that operating mineral interests may be aggregated mine by mine and any number of mines may be aggregated so long as they are a single "operating unit." These rules applicable to hard minerals are left in force under the present bill.

The 1954 statutory change to the "operating unit" test of "property," though prompted by circumstances of the hard-mineral industry, was broad enough to include oil and gas wells. In that industry the operator function is commonly reduced for long periods of time to mere caretaking and maintenance carried on by the same crews without regard either to proximity of the wells or to the identity of the deposits or the geological relationship between them. Accordingly, there is no such well-defined "operating unit" as is evidenced by a single mining operation (though several mines may be involved) in the hard-minerals industry.

Also, unlike the mining industry, the oil and gas industry is allowed unlimited deductions against income from any source for intangible drilling and development costs. Generally, these deductions affect the percentage depletion allowance (through the net-income limitation) only by offsetting gross income to determine the net income of the property to which they relate for the year in which paid or accrued. Accordingly, the industry has for many years minimized the impact of these (often very substantial) deductions on percentage depletion by completing such exploratory and development drilling in years prior to any substantial production from the "property." The election under the 1954 aggregation rule must be exercised as respects a newly developed property in the first year in which such costs were incurred. Accordingly, such costs would enter into the net-income computation for limitation purposes as deductions against production income from all the operating interests then in the "operating unit." Apparently only the larger companies had a sufficiently high ratio of net income to gross income in aggregations elected under the 1954 rule (to deduct the often substantial exploratory and development drilling expenses of new properties added to such aggregation from time to time without materially reducing the percentage depletion deduction) to derive tax advantage from the larger aggregations permitted under the "operating unit" test.

Another difference between the two industries made the 1954 aggregation provision less palatable to the oil and gas industry as a whole. Relatively few operating interests in mines are sold, whereas sales of such interests in oil and gas are common, especially by the

smaller independent companies. Their penchant for selling such interests in discoveries made shows their preference for the tax advantages available under the capital gain provisions. Since, as pointed out below, the sale of an operating interest included in an aggregation or combination of properties present allocation difficulties in the determination of the adjusted bases of those sold and those retained, those inclined to sell rather than to hold and produce had an added reason (avoidance of such difficulties) for not aggregating under the "operating unit" rule of the 1954 act.

In 1958 Congress gave oil and gas operators an option to use either the 1939 code "lease" rule preferred by the smaller operators or the 1954 code "operating unit" rule preferred by the larger companies. As pointed out above, the operating function in the case of oil and gas properties generally give little realistic substance to the "operating unit" test. Also the tax advantages made available to those companies with a sufficiently large number of operating interest to take full advantage of that statutory concept of "property" gives them favored treatment. This combination of uncertainty of concept and specially favorable tax treatment creates a continuous controversy between taxpayers and the Government. Such controversy is aggravated by taxpayers' contentions that widespread areas (in some cases substantial portions of several States) form a single "operating unit." To remove this controversy and also to delete the favorable tax treatment available only to the larger companies the present bill restores the rule prevailing prior to the 1954 act. In substance, the 1939 code "lease" test of the term "property" is thus reinstated for all oil and gas cases for all taxable years beginning after December 31, 1963.

However, the bill changed the operational pattern of the option (available under the reinstated rule) to elect to combine or aggregate any two or more operating interests into a single "property." As above noted, such option (as initially developed) treated each operating interest in each mineral deposit discovered in each tract or parcel of land as a separate "property" unless the taxpayer affirmatively elected to aggregate them. Any failure to so elect irrevocably precluded any future combination between properties so separated.

Generally, taxpayers prefer that such interests be aggregated. Accordingly, the bill recasts the option so that failure to affirmatively elect to the contrary automatically aggregates such interests as they are developed. If the taxpayer elects to treat separately the first two deposits discovered, he is thereafter committed to treat separately all later discovered deposits until he affirmatively elects to aggregate a new discovery with one of the prior discoveries. Once he has elected to treat any discovery as aggregated with an earlier discovery, any discovery thereafter is automatically added to the aggregation unless the taxpayer affirmatively elects to treat the later discovery separately. Thus, as each discovery is made the taxpayer has a choice as to whether to include it in the existing aggregation or to treat it separately. Provision is also made for continuing any existing aggregation under the reinstated rule in the same manner as if created under this bill.

The bill also provides alternative methods of redetermining the adjusted bases, if any, of operating interests presently aggregated (under the "operating unit" rule of the 1954 code) that, under this

bill, must hereafter be treated separately. The basis of such aggregation (if any) may be allocated proportionately among the operating interests included therein in accordance with their fair market values. Also at taxpayer's option, he may use the adjusted basis of each such interest at the time it was first included in the aggregation, further adjusted to reflect adjustments reasonably attributable to such interest during the aggregation period, so that the total of such adjusted bases equals the adjusted basis of the former aggregation.

Finally, the bill contains several provisions dealing with issues arising from the unitization or pooling of oil and gas properties. Unitizations arise where two or more owners of operating mineral interests in separate tracts or parcels of land exchange (by cross-conveyances or contractual arrangements to share proportionately all exploitation costs and income) such interests for undivided interests in all the interests thus pooled. Similarly, a single operating lessee of a number of leases may unitize by arranging to pay his lessors royalties based on an undivided share of production income from all the leases.

Generally, the objective of unitization is to convert all of the operations exploiting a particular deposit into a single operation, thereby eliminating competition between rival operators and competing lessors, and the wasteful production efforts that often attend such rivalries. Thereafter better production methods may be consistently used throughout the remaining productive life of the deposit to get the greatest ultimate production from such deposit at the least possible cost. It has long been the general policy of the Federal and State Governments to encourage, if not require, unitization arrangements. Almost all wildcat areas are now pooled before development. Unitizations in already operating fields are aided by the fact that they are practical prerequisites to the application of secondary recovery projects which necessarily operate on the deposit as a unit.

The bill excepts operating mineral interests (while included in unitized or pooling arrangements) from the effect of the above stated rules respecting the binding effect of elections exercised under the option to aggregate or treat separately the interests in the several deposits in a single tract or parcel of land—and except as noted below, treats all operating mineral interests included by a taxpayer as one property for depletion purposes regardless of tract boundaries. This may result in a loss of depletion deductions where a taxpayer has for unitization one property with regard to which he takes cost depletion, and another property with regard to which he takes percentage depletion (because for example he has no remaining cost basis). This becomes obvious if we consider the unitization of the following two properties:

	Gross income	Cost depletion	Percentage depletion	Depletion allowable cost or percentage whichever is greater
Property A.....	\$100,000	\$35,000	\$27,500	\$35,000
Property B.....	100,000	0	27,500	27,500
Total depletion if treated separately.....				62,500
Total if unitized.....	200,000	35,000	55,000	55,000

The question of whether, under existing law, the taxpayer may treat his separate mineral interests which are participating in a unitization or pooling arrangement as separate properties rather than as one property is presently being litigated. (See *Belridge Oil Company*, 27 T.C. 1044 (1957) (nonacq. C.B. 1958-1, 7), affirmed 267 F. 2d 291 (ninth circuit, 1959); *Earl V. Whitwell*, 28 T.C. 372 (1957), reversed on other grounds, 257 F. 2d 548 (fifth circuit, 1958); *Winfield Killam, et al.*, 39 T.C. 680 (1963).) The House Committee Report states that no inference is to be drawn from this provision as to whether, under the law applicable to taxable years beginning before January 1, 1964, separate interests which participate in unitization or pooling agreements should be treated as one undivided interest or retain the status they had prior to participation. The cited cases hold the unitization agreements therein involved did not result in combining the pertinent properties. In the event such decisions are upheld, this bill would change the law. However as respects inclusions made under existing law, the bill makes provision for continuing to treat such inclusions separately if so properly treated in the last year before their inclusion.

Under the bill voluntary unitizations are not permitted unless the operating mineral interests included (1) are in "the same deposit, or are in two or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and" (2) are in "tracts or parcels of land which are contiguous or in close proximity." Generally, such definitive limitations are designed to include existing unitization or pooling arrangements but to exclude mergers of properties that might be combined for reasons other than those that prompt unitization or pooling arrangements as those terms are presently understood.

Effective date.—The amendments made by this provision apply to taxable years beginning after December 31, 1963. This does not involve any change in elections for those already covered under the 1939 code rules (sec. 614(d)).

Revenue effect.—It is expected that this provision will result in an annual increase of revenue of \$40 million.

SECTION 218. TREATMENT OF CERTAIN IRON ORE ROYALTIES

Under present law, a lessor or sublessor of iron ore deposits (including low-grade ores) is entitled to a percentage depletion allowance measured by 15 percent of his gross royalty income which is regarded as ordinary income offset by cost or percentage depletion, whichever is greater. Generally, the 50 percent of net income limitation on percentage depletion which is applicable to reduce such 15 percent of gross to 50 percent of his net from the property, if less, does not limit his deduction as the costs and expenses attending the status of lessor or sublessor are usually relatively small.

The bill amends the code to give such iron ore royalty income the same income tax classification and treatment applicable to coal royalties under existing law. That is it treats such royalties as class B capital gain (a 50-percent inclusion factor with a 25-percent alternative maximum rate). The basis for computing the capital gain or loss from ore mined within the taxable year is the allocable portion of any remaining depletion basis. Also, in determining capital gain, royalties for the taxable year are offset by expenditures attributable to making and administering the lease (or other form of operating agreement) and costs of preserving and realizing on the lessor's retained economic interest in ores in place to the extent allocable to each royalty payment.

Such new classification and treatment is not optional but is substituted for that provided under present law and is available only to lessors and sublessors who have held an economic interest in iron ore properties for over 6 months. This capital gains treatment is available only to lessors and sublessors who are not themselves participants in the production of the iron ore either as coadventurers, partners, or principals. The iron ore for this purpose is considered as being sold on the date the iron ore is mined.

Example: A comparison of tax results of treating iron ore royalties as capital gain under the bill rather than as depletable ordinary income under existing law is shown as follows:

	Tax result under pres- ent law	Tax result under the bill
Gross royalty income.....	\$2, 200	\$2, 200
Deductions other than depletion (expenses).....	200	200
Net income before depletion.....	2, 000	
Allowable share of depletable basis.....	(20)	20
Depletion deduction (15 percent of gross).....	330	
Net difference.....	1, 670	1, 980
Taxable income.....	1, 670	990
Tax at 40 percent bracket.....	668	396
Income as computed for tax purposes less taxes.....	1, 002	1, 584
Excess of percentage depletion over cost depletion.....	310	
Net after tax income.....	1, 312	1, 584

SAME ASSUMING 60-PERCENT-BRACKET INCOME

Taxable income.....	\$1, 670	\$990
Tax at 60-percent bracket.....	1, 002	(594)
Alternative 25-percent capital gains tax.....		495
Income as computed for tax purposes less tax.....	668	1, 485
Excess of percentage depletion over cost depletion.....	310	
Net after tax income.....	978	1, 485

Effective date.—The capital gains treatment provided by this provision is to apply to iron ore mined in taxable years beginning after December 31, 1963.

Revenue effect.—This provision is expected to result in an annual loss of revenue of \$5 million.

SECTION 219. CAPITAL GAINS AND LOSSES

General rule

Under present law, gains and losses from the sale or exchange of capital assets are divided into two categories, short term (those held 6 months or less) and long term (those held more than 6 months).

In general, no special tax treatment is accorded short-term capital gains and such amounts are taxed as if they constituted ordinary income. Conversely, special tax treatment is accorded long-term capital gains by providing in the case of taxpayers other than corporations—

(1) That only 50 percent of the excess of net long-term capital gain over net short-term capital loss is to be includible in income and taxed at ordinary rates;
or alternatively, if it produces a lesser tax—

(2) That the entire gain is to be taxed at a flat 25-percent rate.

In the case of corporate taxpayers, present law provides that long-term capital gains are to be taxed—

(1) By including 100 percent (compared with 50 percent in the case of other taxpayers) of the excess of net long-term capital gain over net short-term capital loss in ordinary income;
or alternatively, if it produces a lesser tax—

(2) By taxing the entire gain at a flat 25-percent rate.

H.R. 8363 provides for a change in the taxation of capital gains of taxpayers other than corporations by treating capital gains and losses from the sale of certain assets held more than 2 years as a new category of gain or loss. Tax on net gain from the sale of such assets, referred to in the bill as adjusted class A capital gain, is reduced by requiring that only 40 percent of such gain (compared with 50 percent under present law) is to be includible in income and taxed at ordinary rates or, alternatively, if it produces a lesser tax, that the entire gain is to be taxed at a flat 21-percent rate (compared with 25 percent under present law).

In the case of taxpayers other than corporations, the differences between present law and H.R. 8363 as they affect the taxation of capital gains, subject to the offset provisions and exceptions to be described later, are summarized as follows:

Holding period of asset	Percent of gain included in gross income	Alternative tax rate (percent)
Present law:		
6 months or less (short-term)	100	-----
More than 6 months (long-term)	50	25
H.R. 8363:		
6 months or less (short-term)	100	-----
More than 6 months but not more than 2 years (class B)	50	25
More than 2 years (class A)	40	21

It should be noted, however, that under the House bill the alternative tax is made as one calculation. As a result, the tax is determined by comparing the tax resulting from taxing adjusted class B capital gain at 25 percent and adjusted class A capital gain at 21 percent with the tax resulting from including 50 and 40 percent of class B and class A gains, respectively, in ordinary income.

H.R. 8363 makes no direct change in the tax treatment of capital gains and losses of corporations. Corporate taxpayers would continue to have two categories of capital gains and losses, short term and long term. However, the provision of present law which permits the determination of tax to be made on the basis of including 100 percent of the excess of net long-term capital gain over net short-term capital loss in income to be taxed as ordinary income will become meaningful for corporations with taxable income of less than \$25,000. This results from the reduction in the normal tax rate from 30 to 22 percent. Under present law, corporations invariably pay tax on the excess of net long-term capital gain over net short-term capital loss at the alternative 25-percent rate. Under H.R. 8363, small corporations, that is those with less than \$25,000 of taxable income, will pay tax on such long-term capital gain at a 22-percent rate. Corporations with larger taxable incomes will pay tax, as they do under present law, at the alternative 25-percent rate.

Offset rules

Under present law, capital gains and losses are first offset within each category to determine if there is a net short-term capital gain or loss and a net long-term capital gain or loss. If there is a net gain in one category, and a net loss in the other category, present law requires that total capital transactions be netted by reducing net long-term capital gains by net short-term capital losses, or vice versa.

H.R. 8363 retains the same principle by requiring, first, that gains and losses be netted within each category of capital transactions, and, second, that capital gains and losses be netted between each category. This offset procedure is complicated somewhat over present law by reason of the fact that in the case of taxpayers other than corporations there are three categories of gain or loss: short term, class B, and class A, rather than merely the short- and long-term categories of present law.

The offset principles in H.R. 8363 essentially recognize the division of long-term capital gains and losses into the class B and class A categories so that net losses of either category are first used to reduce the net gain of the other category before being applied to reduce net short-term capital gain. The bill also provides that a net short-term loss is to be first used to offset net class B capital gain. If a taxpayer has a net capital loss in more than one category, the bill further provides that he should first use his net class A capital loss, if any, to reduce gain, then his net class B capital loss, if any, and then his net short-term capital loss, if any. Thus, the order and manner in which losses are used to reduce gains is summarized as follows:

1. Net class A capital losses first reduce net class B capital gain and then net short-term capital gain.
2. Net class B capital losses first reduce net class A capital gain and then net short-term capital gain.
3. Net short-term capital losses first reduce net class B capital gain and then net class A capital gain.

Losses

Under present law, if a taxpayer, other than a corporation, has an excess of capital losses over capital gains, he may use up to \$1,000 of such loss as a deduction against ordinary income in the year of the loss. Moreover, any such loss in excess of \$1,000 is carried over to the succeeding taxable year as a short-term capital loss (whether in fact it was a short- or long-term capital loss) and is used first to reduce short-term capital gain, if any, second, to reduce net long-term capital gain, if any, and, third, as a deduction against ordinary income to the extent of \$1,000. This same process, to the extent a loss is not previously used up, is repeated in each succeeding year. However, a loss may only be carried forward for 5 taxable years following the year in which it was incurred. Also, under present law, corporate taxpayers receive the same treatment as other taxpayers except that corporations are not allowed the \$1,000 deduction against ordinary income in any year.

H.R. 8363 makes two changes in the treatment of losses in the case of taxpayers other than corporations. First, such taxpayers are allowed an unlimited carryforward of capital losses in lieu of the 5-year carryforward of present law. Second, the bill provides that each class of capital loss is to retain its character so that it would be carried forward as a short term, class B, or class A capital loss, as the case may be, rather than as a short-term capital loss as provided under present law.

The bill makes no change in the treatment of capital losses of corporations. They would continue to be carried forward as short-term capital losses, regardless of the type loss actually incurred, and would continue to be limited by the 5-year carryforward provision.

Property not eligible for class A treatment

Under present law, capital assets are defined in the code (sec. 1221) to mean property held by a taxpayer (whether or not connected with his trade or business) other than—

1. Inventory;
2. Depreciable property used in a trade or business;
3. Real property used in a trade or business;
4. Copyrights, literary, musical, or artistic compositions held by a taxpayer whose personal efforts created such property (or by a person who determines gain or loss by reference to the basis of such property to such person);
5. Accounts and notes receivable acquired in the ordinary course of business for services rendered or from sale of inventory; and
6. Government obligations issued on a discount basis and payable without interest at a fixed maturity date not exceeding 1 year.

Although depreciable personal property used in a trade or business, real property used in a trade or business, and certain other property described below are excluded from the definition of "capital assets," the code elsewhere provides (in sec. 1231) that if the gain from the sale or exchange of these assets exceeds the losses from such sales or exchanges, the net gain, if any, is to be considered as gain from the sale or exchange of capital assets held more than 6 months (long-term capital gain). These assets are defined as—

1. Depreciable property used in a trade or business, which has been held more than 6 months, and real property used in a trade or business, which has been held more than 6 months (other than inventory, and copyrights, literary, musical, or artistic compositions held by a person described in item 4 above);

2. Timber which is cut by a taxpayer (a) who owned the timber for more than 6 months, or (b) who held a contract right to cut such timber for more than 6 months;

3. Timber, coal, and (as amended by H.R. 8363) iron ore, disposed of by a taxpayer, who held it for more than 6 months, under a contract by virtue of which he retains an economic interest in the property;

4. Livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more (other than poultry); and

5. Unharvested crops, if held for more than 6 months, if the crop and the land are sold or exchanged at the same time and to the same person.

Except in the case of iron ore, H.R. 8363 makes no change in the definition of "assets," gain from the sale of which is accorded capital gains treatment. Under the bill, class B and class A capital gain treatment may apply to gain of taxpayers other than corporations from the sale or exchange of depreciable and real property used in a trade or business, as well as to gain from the sale of capital assets.

(A) Timber, coal, iron ore, livestock, and unharvested crops

In the case of sales or exchanges of timber, coal, iron ore, livestock, and unharvested crops under circumstances which presently result in such gain being treated as long-term capital gain, H.R. 8363 provides that the gain is to be treated as class B capital gain notwithstanding the fact the property may have been held for more than 2 years prior to sale. Thus, for example, gain from the sale of timber by a tree farmer will be treated as class B capital gain even though the trees may have been owned for 20 years. This treatment, in effect, continues existing law by requiring that the tax be determined on the basis of a 50-percent inclusion factor or an alternative rate of 25 percent. However, if gain from the sale of such timber, coal, and so forth, would result in capital gain treatment without regard to section 1231(b)(2) (for example, timber sold with the land, or timber sold outright) such gain could, if otherwise qualified, be treated as class A capital gain.

There is no change in the tax treatment accorded gain from the sale of section 1231 assets by corporations and such gains continue to be treated as long-term capital gains. Moreover, as under present law, if losses from the sale or exchange of section 1231 assets by any taxpayer exceeds his gain from such sales or exchanges, the loss is treated as an ordinary loss.

(B) Distributions from pension and profit-sharing plans

Under present law, so-called lump-sum distributions from trusts created or organized as part of a pension or profit-sharing plan are taxed as long-term capital gain if paid to a distributee within 1 taxable year on account of an employee's death or other separation from service. As a general rule, the amount treated as long-term capital gain is the excess of the amount of such distribution over the amount con-

tributed to the trust by the employee. H.R. 8363, in effect, continues present law with respect to such distributions by treating them as class B capital gains (50-percent inclusion factor or 25-percent alternative rate).

Under present law, if the distribution consists in part of employer stock, the amount of gain recognized at the time of the distribution is reduced by the amount of the unrealized appreciation on the employer's stock. Gain or loss on the employer's stock is recognized only when it is sold or otherwise disposed of by the employee in a taxable transaction. H.R. 8363, also, in effect, continues present law with respect to the gain recognized at the time of the distribution by treating it as class B capital gain. In addition, the unrealized appreciation on the employer stock, whether purchased by employee or employer contributions, is, as under present law, not recognized at the time of distribution. However, when such stock is sold, or otherwise disposed of in a taxable transaction, so much of the gain as is equal to the unrealized appreciation at the time of the distribution is treated, regardless of the holding period of the stock, as class B capital gain, and the remainder of the gain, if any, is treated as short-term, class B, or class A capital gain as the case may be.

The application of this provision is illustrated by the following example:

Example.—Assume employee A, who is covered by his employer's profit-sharing plan, participates in the plan for a period of 10 years. During that time, A contributes \$2,500 to the fund and corporation X contributes \$10,000 for A's account. Assume further, that the fund has a fair market value of \$45,000 at the time A retires and that the entire amount is distributed to him at that time. The statement of A's account is summarized as follows:

	Employee and em- ployer con- tributions	Dividends and interest reinvested	Total amount invested	Fair market value
Individual A.....	\$2,500	\$500	\$3,000	\$9,000
Corporation X.....	10,000	2,000	12,000	36,000
Total.....	12,500	2,500	15,000	45,000

(1) *Distribution of cash (or property other than stock of the employer corporation)*

Under present law, if the distribution does not consist of stock in corporation X, A is treated as realizing a long-term capital gain of \$42,500 at the time of the distribution (\$45,000 (the amount of the distribution), less \$2,500 (the amount of A's contribution)). The \$42,500 gain is taxed by applying a 50-percent inclusion factor, or alternatively, if it produces a lesser tax, a flat rate of 25 percent. This gain, in effect, consists of (1) the \$10,000 employer contribution; (2) the \$2,500 income on both employee and employer contributions; and (3) the \$30,000 appreciation on investment of employee and employer contributions and reinvested earnings.

The House bill provides for the continuation of existing law under such circumstances by treating the \$42,500 gain as class B capital gain (subject to a 50 percent inclusion factor or 25 percent alternative rate).

(2) Distribution of employer stock

If the distribution is made entirely in stock of corporation X, A, under present law, would be treated as realizing a long-term capital gain of only \$12,500 (the amount contributed by the employer (\$10,000) plus the earnings on the contributions of A and X (\$500 and \$2,000 respectively)). Under present law, there is no tax at the time of distribution on the \$30,000 of unrealized appreciation on X corporation stock. A's basis in the stock is \$15,000 (his \$2,500 contribution and the \$12,500 amount includible in income at the time of the distribution) and the \$30,000 unrealized gain is potentially subject to tax as long-term capital gain should A sell the stock.

H.R. 8363 in effect continues the tax treatment accorded such distributions under present law by treating the \$12,500 amount as class B capital gain at the time of distribution. Moreover, should A sell the X corporation stock, any gain, to the extent of \$30,000, will be treated as class B capital gain. Thus, for example, if the stock is later sold for \$45,000, the entire \$30,000 gain would be class B capital gain. If the stock is later sold for \$35,000, the entire \$20,000 gain would be class B capital gain. If the stock is sold more than 2 years after the date of distribution for \$60,000, \$30,000 gain would be class B capital gain and \$15,000 gain would be class A capital gain.

(C) Royalties from patents

Under present law, if an individual who creates an invention which is covered by a patent transfers all substantial rights to the patent, or an undivided interest therein, in consideration of royalty payments, gain from the transfer is treated as a long-term capital gain (50 percent inclusion factor or 25 percent alternative rate). Present law also provides the same tax treatment to royalties resulting from transfers by individuals who purchase their interests in an invention covered by a patent from the creator prior to actual rendition to practice of the invention.

H.R. 8363, in effect, continues present law in the case of transfers by individuals whose efforts create the invention by treating them only as class B capital gain (50 percent inclusion factor or 25 percent alternative rate). However, royalties received by individuals who in effect finance the creator will be eligible for class A treatment if the holding period requirement is satisfied.

(D) Employee termination payments

Present law provides that amounts received by an employee for the assignment or release of his rights to receive a percentage of future profits of his employer is considered an amount received from the sale or exchange of a capital asset held for more than 6 months, if—

(1) The transferor had been an employee of the employer corporation for more than 20 years;

(2) The rights transferred relate to amounts which are payable after termination of the transferee's employment over a period of 5 years or more;

(3) Such rights were included in the terms of employment of such employee for not less than 12 years;

(4) Such rights were included in the terms of employment of such employee before August 16, 1954; and

(5) The amount received for the assignment or release is received in one taxable year after termination of employment.

The House bill continues existing law with respect to such amounts and treats them only as class B capital gain (50 percent inclusion factor or 25 percent alternative rate).

Short sales

Present law (sec. 1233) provides, in part, that if gain from a short sale is considered a gain from the sale of a capital asset, and if the taxpayer held substantially identical property to that which was sold short for 6 months or less at the time of the short sale, gain on the closing of the short sale is considered short-term capital gain. In addition, the substantially identical property, if it is not used to close the short sale, receives a new holding period beginning on the date of the closing of the short sale.

Example: A purchases 100 shares of X stock on January 1 at \$100 per share. On June 1, A sells short 100 shares of X stock at \$120 per share. On August 1, A purchases an additional 100 shares of X stock at \$115 per share which he used to close the short sale on such date. The \$500 gain on the short sale is considered a short-term capital gain. In addition, the holding period of the 100 shares of stock purchased on January 1, is considered to begin on August 1.

The House bill retains this rule and also provides a similar rule if substantially identical property is held at the time of the short sale for more than 6 months but not more than 2 years. In such cases, gain from the short sale is considered class B capital gain and the holding period of the substantially identical property is considered to begin on the date of the closing of the short sale.

Both present law and the House bill contain similar rules with respect to losses if on the date of the short sale substantially identical property has been held for more than 6 months, or in the case of the bill, for more than 2 years. Such losses under present law are considered long-term losses and under the bill are considered class B or class A losses, as the case may be.

Pass through of capital gains and losses

As a result of the division of the long-term capital gain category of taxpayers other than corporations into two parts, the bill provides that long-term capital gains and losses may be passed through common trust funds, regulated investment companies, and real estate investment trusts to their beneficiaries, other than corporations, as class B and class A capital gains. Similar rules also apply to partnerships and trusts.

Effective date

The provisions of this section are applicable to taxable years beginning after December 31, 1963. In the case of so-called lump sum distributions, the provisions of the bill apply to dispositions of employer stock in taxable years beginning after December 31, 1963, without regard to when such stock was distributed.

Revenue effect

It is expected that the reduction in tax applicable to capital gains will increase the liquidity of investment capital by encouraging investors to realize gains which would otherwise have remained

"locked-in." It is estimated that the impact of this provision will increase tax liabilities by about \$340 million for the calendar year 1964 and by about \$210 million for calendar year 1965. However, the reduction in the inclusion factor and the alternative rate of tax applicable to class A capital gains will ultimately result in a net loss of revenue of approximately \$90 million per year.

The provision for an indefinite carryforward of capital losses is expected to result in an annual revenue loss of \$30 million.

SECTION 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRECIABLE REALTY

This section of the bill amends the code to provide that all or a portion of the gain on the sale of depreciable real property is taxed as ordinary income under some circumstances. The portion so taxed is determined by reference to the depreciation deductions previously taken by the transferor. In other words, the bill provides for a so-called recapture of part or all of the depreciation.

While under present law, gain from the sale of real property held for the production of income is generally taxed as capital gains, usually no depreciation is allowed or allowable for the taxable year of the sale. (The Revenue ruling and the leading decision on this question are digested below.)

The bill provides for recapture in several ways depending upon the length of time that the property was held. In the first place, it provides that if real property is held 1 year or less, then all of the depreciation taken is subject to recapture (but not more than the amount of the gain). To illustrate this rule let us assume that an apartment house is purchased for \$200,000 in 1 taxable year and sold for \$201,000 the next taxable year, 11 months later. A depreciation deduction of \$6,000 was taken in the year of acquisition and a \$5,000 deduction was taken in the year of sale. In these circumstances:

- (1) Under the rule of existing law already described the \$5,000 deduction in the year of sale is disallowed.

- (2) The adjusted basis of the property at the time of the sale is \$194,000 (\$200,000 minus \$6,000), so that the gain on the sale is \$7,000.

- (3) The entire amount of depreciation allowed (\$6,000) is taxed as ordinary income. The remaining \$1,000 of the gain is capital gain. If the property had been sold for \$199,000, there would have been a gain of \$5,000 and all of this (being less than the depreciation) would have been taxed as ordinary income.

Secondly, the bill provides that if the property was held, more than 1 year but less than 21 full months then there shall be recognized as ordinary income 100 percent of the smaller of—

- (1) The “additional depreciation,” or

- (2) The gain on the transfer.

The additional depreciation is the amount by which the depreciation deductions actually taken exceed the depreciation deductions which would have been taken if the straight-line method of depreciation had been used. This may be illustrated by a simple example. A taxpayer on the calendar year acquired a building on May 1, 1964, and sold it on January 2, 1966 (20 months and one day later). The depreciation deductions actually taken totaled \$20,000 but the depreciation deductions which would have been taken on the straight-line method totaled \$12,000. The additional depreciation is \$8,000.

Accordingly, on the sale ordinary income is recognized to the extent of 100 percent of the \$8,000 unless the entire gain is smaller than this figure. If the entire gain is smaller than \$8,000 then the entire gain is recognized as ordinary income.

Finally, under the amendments made by the bill, if property is held for at least a full month more than 20 full months but less than 10 years a percentage of the gain or of the additional depreciation (whichever is smaller) is taxed as ordinary income. The percentage is 100 percent minus 1 percentage point for each full month more than 20 full months that the property was held. Thus, after the property has been held 120 full months (10 years) no ordinary gain whatever is recognized on the sale. Under this rule, if the property has been held 22 full months the percentage is 98 percent (100 minus 2). On the other hand, if the property has been held 6 years or 72 full months, the percentage is 48 percent (100 minus 52).

The amendments made by the bill apply to all depreciable real property (other than section 1245 property) including leases of unimproved real estate with regard to which depreciation may be taken.

The amendments made by the bill apply not only to sales and exchanges but to all transfers other than those specifically excepted in whole or in part. Gifts are completely excepted. Transfers at death are excepted completely (unless sec. 691 applies). Certain tax-free transfers in which the transferee takes over the transferors basis are excepted except to the extent that gain is recognized. These transfers are those to which sections 332, 351, 361, 371(a), 374(a), 721, or 731 apply.

In the case of like kind exchanges (under sec. 1031) or involuntary conversions (under sec. 1033) gain is recognized, but only to the extent of the greater of—

(1) the amount of gain recognized on the exchange plus the fair market value of stock acquired as replacement property, or

(2) the amount of ordinary income which would have been recognized on a cash sale, diminished by the cost of the depreciable real property acquired.

Transactions undertaken at the order of the SEC or the FCC (sections 1071 and 1081 of the code) are excepted under rules similar to those for involuntary conversions and tax-free transactions.

Property distributed by a partnership in a pro rata distribution is excepted but the ordinary income is recognized at the time the partner sells the property received. On the other hand, if there is a non pro rata distribution, ordinary income is recognized to the extent the distribution is non pro rata.

A disposition of a principal residence by a taxpayer who meets the age and ownership requirements of section 121 is excepted (that section requires that the taxpayer be over 65 and that he owned the property and used it as his principal residence 5 out of the 8 years immediately before the sale).

For purposes of determining the holding period (to apply the percentage above described) real property is considered acquired on the day after the date of acquisition if it was purchased and on the first day of the month during which the property was placed in service if it was constructed by the taxpayer.

In order to make certain that the holding periods of separate property will be appropriately determined, the amendments made by the

bill define a "separate improvement." Under the bill the term means each improvement added during a 36-month period ending on the last day of any taxable year to the capital account for the property if the sum of the amounts added during such 36 months are greater than the greatest of the following:

- (1) 25 percent of the adjusted basis of the property;
- (2) 10 percent of the adjusted basis of the property without depreciation adjustments (original cost); or
- (3) \$5,000.

In determining whether there has been a separate improvement, however, an amount spent during a taxable year shall be disregarded unless it is more than \$2,000 and also more than 1 percent of the adjusted basis of the property.

The bill amends the code to provide that if depreciable real property is contributed to a charity the amount of the charitable contributions deduction which may be taken shall be reduced by the amount of ordinary income which would have been recognized if the property had been sold at its fair market value at the time of the contribution.

The provisions are to be effective with respect to depreciation attributable to periods after December 31, 1963.

The revenue gain will be small the first few years. However, when the provisions are fully effective, a revenue gain of about \$15 million a year is expected.

Digests on depreciation rule

1. *Revenue Ruling 62-92* (Internal Revenue Bulletin 62-26, June 25, 1962, p. 9) holds that:

The depreciation deduction for the taxable year of disposition of an asset used in the trade or business or in the production of income, otherwise properly allowable under the taxpayer's method of accounting for depreciation, is limited to the amount, if any, by which the adjusted basis of the asset at the beginning of the year exceeds the amount realized from sale or exchange.

This ruling is based on and cites the *Cohn* decision digested below.

2. *Bertrand W. Cohn v. U.S.* (259 Fed. 2d 371, CA 6, 1958). In 1941 and 1942 the taxpayers began to operate three flying schools under contracts with the Air Force. For use in these operations they acquired a large amount of movable property consisting of barracks and mess hall equipment, shop and office equipment, and more specialized air school equipment. The taxpayers estimated that the Air Force contracts would end before December 31, 1944, and accordingly they depreciated all their property over lives terminating on that date. However, they assumed a salvage value of *nothing* in their computations. In 1944 the air schools were, in fact, terminated and the property in question was sold at a large profit. On audit the Commissioner took the position that the depreciation deductions should have been smaller and that once property is sold the "salvage" value is no longer a mere estimate. The court held that in no case could a depreciation be taken for the year of sale if the basis of the property at the beginning of the year was already less than the amount for which the property was sold. The court also adjusted depreciation for some of the years before the year of sale on the basis of the known salvage value when the property was sold.

SECTION 221. INCOME AVERAGING

Present law

No generally available income averaging provision is provided by present law. Instead present law contains six specific averaging provisions dealing with special types of situations:

1. Certain compensation for personal services;
2. Income from inventions or artistic works;
3. Certain income from backpay;
4. Compensation for damages for patent infringements;
5. Breach of contract damages; and
6. Damages for injuries under the antitrust laws.

Under the first two of these provisions, those relating to compensation for personal services and to inventions and artistic works, in order to be eligible for the averaging device the income involved must be attributable to at least a specified minimum period of time. In the case of compensation for personal services, the employment must have covered 36 months or more. In the case of inventions or artistic works, the work involved must have covered a period of 24 months or more.

In addition, eligibility requirements under the averaging provisions sometimes require that the receipt of the payments involved be heavily concentrated in 1 year. In the case of compensation for personal services, 80 percent or more of the total compensation for the employment must be received in the taxable year in question. In the case of an invention or artistic works, the amount received in the year in question must not be less than 80 percent of the gross amount received with respect to the invention or artistic work in the taxable year, all prior years and the succeeding 12 months. The backpay provision also has a somewhat similar requirement. To be eligible for averaging in the case of backpay, the amount of backpay received in the taxable year must exceed 15 percent of the gross income for that year.

In the case of all of the present averaging devices, the averaging is achieved by providing that the tax involved is not to be greater than if the income were spread back, either ratably over the period to which the income relates, or specifically to the years to which the income relates. In the case of income from inventions the spreadback for this purpose may not exceed 60 months, however, and in the case of artistic works it may not exceed 36 months. The other averaging provisions are not limited in this regard.

The tax in each case, although imposed as of the current year, is determined by making a recomputation with respect to the back years involved in the rates applicable to those years.

General rule under House bill

The House bill deletes all of the present-law averaging provisions referred to previously and substitutes in their place an income averaging device available to individual taxpayers generally, substantially

without regard to the source of their income. As indicated subsequently, however, in the case of the averaging device for compensation from employment, the House bill in limited cases permits the continuation of the application of the existing provision.

Under the averaging rule provided by the House bill, once the amount of income to be averaged is determined—called averagable income in the bill—and assuming this amount is more than \$3,000, the taxpayer is to compute a tentative tax on one-fifth of this amount. The tax on this one-fifth is determined by adding this income on top of $1\frac{1}{2}$ times the average income received in the prior 4 years, plus the average capital gains income in this same 4-year period. The tax attributable to this one-fifth is then multiplied by 5 to determine the final tax on this income.

Averaging is available only where the “averagable income” exceeds \$3,000 because with the present progressive rate structure with tax brackets usually of \$2,000 to \$4,000, smaller amounts achieve little if any benefit from averaging. The device of including one-fifth of the averagable income in the tentative tax base, computing the tax attributable to this amount, and then multiplying this result by five, is intended to achieve a result which is substantially similar (except where there have been rate changes during the period) to including one-fifth of the income eligible for averaging in the taxable income base of each of the prior 4 years and of the current year.

The “averagable income” referred to here is the excess of the taxable income in the current year or computation year—with certain adjustments—over $1\frac{1}{2}$ times the average base period income. The average base period income is the average of the taxable income in the 4 prior years with certain adjustments specified subsequently.

The income of the computation year used in arriving at the averagable income—referred to in the bill as the “adjusted taxable income”—is the taxable income for the computation year decreased by—

1. any capital gain net income for that year;
2. any income for that year attributable to gifts, bequests, devises, or inheritances received during that year or any of the four prior base period years;³
3. any excess of wagering gains, in the computation year, over wagering losses; and
4. certain amounts of income to which penalties apply with respect to the owner employees who are self-employed for pension plan purposes (sec. 72(m)(5)).

Because it may be difficult to trace specific income to specific gifts, bequests, or devises or inheritances for purposes of determining the exclusion from the computation year with respect to these amounts, the bill presumes that such property earns a 6-percent rate of return unless the taxpayer establishes to the satisfaction of the Treasury that some other amount of income is earned with respect to the property.

Two of the adjustments made in the income for the base period are the same as those made for the income in the computation year. Thus, capital gains net income is excluded and also any income from gifts, bequests, devises, or inheritances where the property was initially received by the taxpayer in 1 of the 4 base period years.

³ Income attributable to gifts, bequests, devises, or inheritances between a husband and a wife are not taken out of the income for the computation year if the husband and wife file a joint return for the computation year or one of them makes a return in that year as a surviving spouse. Also, not taken into account are amounts of less than \$3,000 in the computation year.

A third adjustment made in the average base period income is to add back to this income any income excluded for those years on the grounds that it was earned in a foreign country (the exclusion under sec. 911) or on the grounds that it was income from sources within a possession of the United States (sec. 931).

Example

The method of applying the averaging provision described previously can be illustrated by an example of an unmarried taxpayer having an average base period income of \$3,000 in the years 1961-64 and an adjusted taxable income of \$44,000 in 1965. The taxpayer in this case is eligible for averaging since his "averagable income" exceeds \$3,000. His averagable income in this case can be computed as follows:

(1) Adjusted taxable income in computation year	\$44, 000
(2) 133⅓ percent of average base period income (\$3,000 × 133⅓ percent)	4, 000
(3) Averagable income	40, 000

Since the averagable income is in excess of \$3,000, the entire amount is subject to averaging.

Computation of tax:

(a) 133⅓ percent of average base income (\$3,000 × 133⅓ percent) ..	\$4, 000
(b) Averagable income included in tentative tax base (⅓ of \$40,000) ..	8, 000
(c) Tentative taxable income	12, 000
(d) Taxable tentative tax liability (1965 rates under bill)	2, 830
(e) Tax on \$4,000 not subject to averaging	690
(f) Tax liability of ⅓ of averagable income	2, 140
(g) Tax on total averagable income (\$2,140 × 5)	10, 700
(h) Total final tax liability (tax on \$4,000 not subject to averaging and \$40,000 subject to averaging)	11, 390
(i) Tax on \$44,000 under 1965 rates without averaging	18, 990

Treatment of capital gains and priority of tax in different types of income

As previously indicated, net capital gains—that is, any excess of class B or class A gains over capital losses—are excluded from the adjusted taxable income for the computation year in determining how much of this income is to be eligible for averaging and also from the average base period income. Thus, generally, capital gains (other than short-term capital gains) have no effect in determining the income subject to averaging.

There is one exception to this general rule, however. If the average capital gains net income in the base period exceeds the capital gains net income in the computation year, then to the extent of this excess, the income subject to averaging is reduced.

The bill provides that in determining the tax which is attributable to the income subject to averaging, the first income subject to tax is to be the ordinary income not eligible for averaging. In the example previously presented, this meant that the \$4,000 of income not subject to averaging is considered to be income subject to the first income brackets. The income subject to the next higher income tax rates is the capital gain net income of the computation year but only to the extent this does not exceed the average base period capital gains net income.⁴ Following this is taken into account the income

⁴ Actually, this amount is preceded by any excess of average base period capital gains over capital gains of the computation year in those cases where such a situation exists.

subject to averaging, with respect to which one-fifth is included, the tax then computed and the result multiplied by five. Any remaining capital gains income in the computation year, in excess of average base period capital gains net income is treated as being received on top of this income subject to averaging along with income from wagering or gifts, bequests, devises, or inheritances, which are not eligible for the averaging treatment.⁵

The alternative capital gains tax in such a case is determined by applying the appropriate 21 or 25 percent (or combination of the two rates) to the class A or class B capital gains. This tax is then compared with the tax attributable to the capital gains in the computation previously explained. Whichever results in the lower tax is the applicable tax.

The tax base is structured in the manner previously indicated to give assurance that the income subject to averaging is taxed, as nearly as possible, at the same income level as would be the case had such income been earned ratably over the current year and the 4 prior years.

An example of where capital gains income in the base period exceeds that in the computation year and therefore reduces income subject to averaging can be illustrated as follows. Assume a single individual for the taxable years 1960 through 1964 has taxable income for those years as indicated in the tabulation presented below. For the taxable years 1960 through 1963, all of his ordinary income is from salary and all of his income from capital gains is net long-term capital gains. For the taxable year 1964, his ordinary income is \$44,000 and his remaining \$3,000 of taxable income is attributable to \$7,500 of adjusted class A capital gains.

The individual's eligibility for income averaging and the amount of his averagable income for 1964 are determined as follows:

Year	Total taxable income	Taxable ordinary income	Capital gains
1960.....	\$8, 250	\$2, 000	\$12, 500
1961.....	7, 750	4, 000	7, 500
1962.....	7, 500	3, 500	8, 000
1963.....	8, 500	2, 500	12, 000
1964.....	47, 000	44, 000	7, 500

(1) Adjusted taxable income for 1964 (the computation year):	
(a) Taxable income for 1964.....	\$47, 000
Less:	
(b) Capital gain net income for the computation year.....	3, 000
Adjusted taxable income.....	44, 000
(2) Average base period income for years 1960-63 (the base period years):	
(a) 1960.....	2, 000
1961.....	4, 000
1962.....	3, 500
1963.....	2, 500
	12, 000
(b) \$12,000 ÷ 4.....	3, 000

⁵ The penalty income with respect to owner-managers in connection with receipts of pension type incomes is treated as if the averaging provision did not apply.

(3) Average base period capital gain net income:	
(a) 1960, $\$12,500 \times 50$ percent	\$6,250
1961, $\$7,500 \times 50$ percent	3,750
1962, $\$8,000 \times 50$ percent	4,000
1963, $\$12,000 \times 50$ percent	6,000
	<hr/> 20,000 <hr/>
(b) $\$20,000 \div 4$	5,000 <hr/>
(4) Averageable income for 1964:	
(a) Adjusted taxable income	44,000
Less:	
(b) $133\frac{1}{3}$ percent of average base period income ($\frac{4}{3} \times \$3,000$)	4,000
	<hr/> 40,000 <hr/>
Total	40,000
Less:	
(c) The adjustment for capital gains:	
(i) Average base period capital gain net income	\$5,000
Less:	
(ii) Capital gain net income for the computation year ($\$7,500 \times 40$ percent)	3,000
	<hr/> 2,000 <hr/>
Total	38,000
Averagable income	38,000

Since the individual has averageable income in excess of \$3,000, he is eligible to choose the benefit of averaging. The entire amount of his averagable income (\$38,000) is subject to averaging. His tax for 1964 can be computed as follows:

(1) Tax on the sum (\$16,600) of the following amounts:	
(a) $133\frac{1}{3}$ percent of the average base period income and the adjustment for capital gains ($\frac{4}{3} \times \$3,000 + \$2,000$)	\$6,000
(b) The amount of the computation year capital gain net income	3,000
(c) 20 percent of the averagable income ($\$38,000 \div 5$)	7,600
	<hr/> 16,600 <hr/>
Total	16,600
Tax on \$16,600	4,877 <hr/>
(2) Tax attributable to the averagable income:	
(a) Tax on \$16,600	4,877
(b) Tax on 20 percent of averagable income ($\$4,877 - \$2,055$, the tax on \$9,000)	2,822
(c) Multiply tax by 5 ($5 \times \$2,822$)	14,110
	<hr/> 16,165 <hr/>
(3) Total tax for 1964:	
(a) Tax on first \$9,000 of income	2,055
(b) Tax on averagable income (\$38,000)	14,110
	<hr/> 16,165 <hr/>

Without the benefits of income averaging, the total tax for 1964 would be \$21,705. As a result, the tax saving from income averaging in this case is \$5,540.

To illustrate the method of computation where the alternative tax computation must be made, the same facts can be assumed as in the example given above except that the individual's taxable income for 1964 is assumed to be \$84,000, of which \$44,000 is ordinary income and the remaining \$40,000 is attributable to his \$100,000 adjusted class A capital gain.

110 SUMMARY OF H.R. 8363, THE REVENUE ACT OF 1963

(1) Adjusted taxable income for 1964 (the computation year):	
(a) Taxable income for 1964	\$84, 000
Less:	
(b) Capital gain net income for the computation year	40, 000
Adjusted taxable income	44, 000
(2) Average base period income for years 1960-63 (the base period years)	3, 000
(3) Average base period capital gain net income	5, 000
(4) Averagable income for 1964:	
(a) Adjusted taxable income	44, 000
Less:	
(b) 133⅓ percent of average base period income ($\frac{4}{3} \times \$3,000$)	4, 000
Total	40, 000

Since the individual has averagable income which exceeds \$3,000, he is eligible for averaging. The entire amount of this averagable income (\$40,000) is subject to averaging. The tax for 1964 on the income involved can be computed as follows:

(1) Tax on the sum (\$52,000) of the following amounts:	
(a) 133⅓ percent of the average base period income	\$4, 000
(b) The average base period capital gain net income	5, 000
(c) 20 percent of the averagable income (\$40,000 ÷ 5)	8, 000
(d) Excess of computation year capital gain net income over average base period capital gain net income	35, 000
Total	52, 000
Tax on \$52,000	25, 260
(2) Tax attributable to the averagable income:	
(a) Tax on \$17,000	5, 055
(b) Tax on 20 percent of averagable income (\$5,055 — \$2,055)	3, 000
(c) Multiply tax by 5 (5 × \$3,000)	15, 000
(3) Tax attributable to the excess of computation year capital gain net income over average base period capital gain net income (\$25,260 — \$5,055)	20, 205
(4) Total tax for 1964:	
(a) Tax on first \$9,000 of income	2, 055
(b) Tax on averagable income (\$40,000)	15, 000
(c) Tax on excess capital gain net income (\$35,000)	20, 205
Total	37, 260

Computation of alternative tax for computation year (1964):

(1) Tax equal to the tax imposed by sec. 1 of the code	37, 260
(2) Amount (if any) of reduction in tax:	
(a) Tax imposed by sec. 1 of the code which is attributable to the amount of capital gain net income for the computation year which is equal to the average base period capital gain net income (\$5,000)	1, 315
(b) Tax imposed by sec. 1 of the code which is attributable to the excess of capital gain net income for the computation year over the average base period capital gain net income (\$35,000)	20, 205
Total tax attributable to capital gain net income for the computation year	21, 520
(c) Amount which is 21 percent of adjusted class A capital gain for computation year (\$100,000)	21, 000
Reduction in tax	520
(3) Alternative tax for 1964 (\$37,260 — \$520)	36, 740

Without the benefits of income averaging, the total tax for 1964 would be \$41,130. Thus, the tax saving in this case from income averaging is \$4,390.

Eligible individuals

To be eligible for averaging the individual's income must have been subject to tax by the United States throughout the entire base period as well as in the computation year. No one is eligible for averaging who was a nonresident alien in any of the 4 base period years or in the computation year. To be eligible for averaging, the individual must be a citizen or resident in the computation year. In addition, even though a citizen in the computation year, the individual must be claiming no exclusions in that year for income earned abroad. He may have claimed such an exclusion with respect to a base period year, but for purposes of determining his income for the computation year subject to averaging, this income is added back to his base period income.

The bill also intends that the individual in general must have been a member of the labor force in both the computation year and in the 4 base period years. The general rule designed to achieve this result provides that the individual and his spouse must have furnished one-half or more of their support in each of the base period years. However, because it is not intended to exclude from the benefits of averaging an individual who was in the labor force but unemployed in part or all of the base period years, individuals generally are eligible for averaging if they are 25 years old and there have been at least 4 years since the individual attained age 21 in which he was not a full-time student. As a result, individuals age 25 or over will be eligible for averaging so long as they have been out of school for at least 4 years since age 21.

A second exception is provided for the individual who although not self-supporting in the 4 base period years, nevertheless has income in the current year more than half of which is attributable in substantial part to work he did in two or more of the base period years. This is designed to make sure that those who have performed some work of a substantial nature which has occurred over a period of years will be eligible for averaging even below the 25-year age limit.

A third exception is provided for an individual (usually the wife) who was not self-supporting in the base period and who makes a joint return with a spouse, if not more than 25 percent of the total adjusted gross income of the couple in the computation year is attributable to the individual in question. This is designed to make sure that an individual (usually the husband) who has been in the labor force and marries someone who was a dependent of another will not be deprived of averaging, assuming three-quarters or more of the income in the computation year is attributable to the individual who was in the labor force in the base period. This, for example, means that a man who marries a woman, who was a dependent of her father during part or all of the base period years, will not be deprived of income averaging as a result of this marriage if he is the major wage earner.

Special rules with respect to marital status

No special problems arise in applying the averaging provision where a husband and wife file a joint return in the computation year and

also did so in each of the base period years. However, it is necessary to reconstruct their income where they either filed separately (or were married to other spouses) in the base period years, or are filing separately in the computation year.

For example, if a married couple files a joint return in the current year and filed separate returns for one or more of the base period years, their base period income for purposes of averaging in the current year will be their combined base period incomes for their base period years.

In addition, the bill provides that an individual's base period income is to be either his actual base period income in each of the base period years, or, if higher, 50 percent of the combined base period income of him and of his spouse.⁶

In determining base period income for purposes of this provision, community property laws are not taken into account in the case of earned income. Thus, for these years the income attributed to an individual will be the income earned by him without regard to whether it was considered to be his or his spouse's income under community property laws. In determining adjusted taxable income for the computation year the same rules are applied except that in no event is the amount taken into account to exceed the amount reported by the individual for tax purposes for that year.⁷

Continuation of present averaging device in certain cases

The House bill provides that the averaging device in present law with respect to compensation from an employment is to continue to be available if the taxpayer so elects where he receives or accrues compensation from employment which began before February 6, 1963. If the taxpayer elects this treatment he must forgo for that year the generally available averaging device.

This provision, which on this elective basis is continued for compensation for employment begun before the specified date, provides in general that the employment must cover a period of 36 months or more and that the gross compensation from the employment received by the individual (or partnership) in the year in question must not be less than 80 percent of the total compensation for such employment. Where these conditions are met, present law provides that the tax is not to be greater than if the compensation had been included in the gross income of the individual ratably over the period of the employment prior to the date of the receipt or accrual.

Effective date

The amendments made by this provision apply to taxable years beginning after December 31, 1963. This means that averaging will be available for the first time with respect to taxable years beginning in 1964. This will involve base period years as far back as 1960. However, as indicated above, the averaging device in present law relating to compensation from employment, where the employment began prior to February 6, 1963, may continue to be applicable for taxable

⁶ If the individual involved was married to another person in one or more of the base period years, his base period income is not to be less than 50 percent of his income of that year combined with the income of whichever spouse had the higher income.

⁷ As a result where a husband and wife have community property income and file separate returns, if more than half of the community income is attributable to the husband's services, this excess will not be eligible for averaging either to the husband or to the wife.

years beginning after December 31, 1963, at the election of the taxpayer.

Revenue effect

This provision is expected to result in a reduction of \$40 million in tax liabilities in the calendar year 1964 and subsequent years.

SECTION 222. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR CORPORATIONS FILING CONSOLIDATED RETURNS

Under present law, a domestic parent corporation and its 80-percent owned domestic subsidiaries may generally elect to file a consolidated Federal income tax return in lieu of having each corporation file a separate tax return. For this purpose, at least 80 percent of the voting power of all classes of stock, and at least 80 percent of each class of the nonvoting stock, of each subsidiary corporation must be owned directly by one or more of the corporations in the group. In general, the principal advantages derived from the filing of a consolidated return are—

- (1) an ability to offset losses of corporations in the group against the income of other corporations in the group;

- (2) to eliminate from taxable income, income that would otherwise be recognized as a result of intercorporate transactions, for example, the sale of inventory from one corporation to another; and

- (3) the ability of corporations to pay and receive dividends within the group without the imposition of a tax on the dividends (generally a 7.8-percent tax).

Present law limits corporations filing a consolidated return to one surtax exemption and also generally requires that the tax of the corporations filing a consolidated return be increased by 2 percent of the consolidated taxable income of the consolidated group. Thus, although the taxable income of a group is normally reduced as a result of the filing of a consolidated return, the total tax rate applicable to taxable income under \$25,000 is increased from 30 to 32 percent and the tax rate applicable to taxable income in excess of \$25,000 is increased from 52 to 54 percent. The 2-percent additional tax does not apply to the portion of the consolidated taxable income attributable to includible corporations which are (1) Western Hemisphere trade corporations or (2) regulated public utilities.

The House bill repeals the 2-percent additional tax applicable to consolidated taxable income.

Effective date

This provision applies to taxable years beginning after December 31, 1963.

Revenue effect

It is estimated that enactment of this provision will result in an annual revenue loss of approximately \$50 million. However, this estimate only reflects the loss of revenue due to repeal of the 2-percent tax on those corporations which now file consolidated returns and who now pay the additional 2-percent tax. Adoption of the provision may result in a loss of additional revenue if groups which do not now file consolidated returns adopt that practice and thereby eliminate intercorporate dividends, gain on transfers of inventory between corporations, etc., from the tax base.

SECTION 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF CERTAIN CONTROLLED CORPORATIONS, ETC.

Under present law, corporations are generally taxed at a 30-percent rate on the first \$25,000 of their taxable income and at a 52-percent rate on all income over that amount. This tax rate differential results from the fact that the first \$25,000 of income of a corporation is subject to the 30-percent normal tax, but is exempt from the 22-percent surtax, while income in excess of \$25,000 is subject to both the 30-percent normal tax and the 22-percent surtax.

The House bill reduces the tax applicable to the first \$25,000 of taxable income from 30 to 22 percent and decreases the tax applicable to income above \$25,000 from 52 to 50 percent in 1964 and to 48 percent in subsequent years. One of the effects of this change is to increase the value of the surtax exemption from \$5,500 per corporation under present law to \$6,500 per corporation for 1965 and subsequent years. This effect is illustrated by the following example:

Example (1). Assume taxpayer A owns two corporations, X and Y, and that each corporation has taxable income of \$25,000. Tax under present law on the two-corporation group, with a total taxable income of \$50,000, would be \$15,000 computed as follows:

	Taxable income	Tax rate, percent	Tax
X corporation.....	\$25, 000	30	\$7, 500
Y corporation.....	25, 000	30	7, 500
Total.....	50, 000		15, 000

Further, assume taxpayer B has \$50,000 of income, but that the entire amount is received by one coporation, Z, rather than by two corporations as was the case with taxpayer A. Tax of Z corporation under present law would be \$20,500, copmuted as follows:

	Taxable income	Tax rate	Tax
Z corporation.....	\$50, 000	{ \$25,000, at 30 percent 25,000, at 52 percent.....	\$7, 500 13, 000
Total.....	50, 000		20, 500

Thus, under present law, the tax advantage from multiple incorpora- tion is \$5,500 for each additional corporation in the group:

Total tax of taxpayer B who had 1 corporation.....	\$20, 500
Total tax of taxpayer A who had 2 corporations.....	15, 000
Tax benefit of extra surtax exemption.....	5, 500

Under the House bill, when fully effective but computed without regard to this section, the tax on A's two corporations group would be \$11,000, computed as follows:

	Taxable income	Tax rate (percent)	Tax
X corporation.....	\$25,000	22	\$5,500
Y corporation.....	25,000	22	5,500
Total.....	50,000		11,000

By comparison, the tax on B's one corporation would be \$17,500, computed as follows:

	Taxable income	Tax rate	Tax
Z corporation.....	\$50,000	{ \$25,000 at 22 percent..... 25,000 at 48 percent.....	\$5,500 12,000
Total.....	50,000		17,500

Therefore, under the House bill, but computed without regard to this section, the tax advantage from multiple incorporation would be \$6,500 for each additional corporation in the group:

Total tax of taxpayer B who had 1 corporation.....	\$17,500
Total tax of taxpayer A who had 2 corporations.....	11,000
Tax benefit of extra surtax exemption.....	6,500

Although the above example deals with a brother-sister controlled group, that is, a group owned by an individual, trust, or estate, the same tax advantage exists when a parent corporation operates through a series of subsidiary corporations.

To cope with the tax advantage resulting from the use of the multiple corporate form of organization, the Internal Revenue Code now contains several provisions which are designed to discourage taxpayers from using the multiple corporate form of organization if the principal purpose of such method of operation is to obtain multiple surtax exemptions. For example, present law provides (sec. 269) that where an individual or corporation acquires control of a corporation and the principal purpose of the acquisition is the evasion or avoidance of Federal income tax by securing the benefit of a deduction, credit, or other allowance, this deduction, credit, or allowance is not to be allowed. Also, present law (sec. 1551) provides that if a corporation transfers part or all of its property (other than money) to another corporation created to acquire the property, or if the transferee corporation is not actively engaged in business at the time of the transfer, and if there is common control of the two corporations, then the transferee corporation is not to be allowed the \$25,000 surtax exemption or the \$100,000 accumulated earnings credit unless it establishes by the clear preponderance of the evidence that the securing

of the exemption or credit is not a major purpose of the transfer. In addition, present law (sec. 482) provides that where two or more corporations are owned or controlled directly or indirectly by the same interest, the Secretary of the Treasury or his delegate may allocate deductions, credits, or allowances between or among these corporations, if he determines that this is necessary to prevent evasion of taxes or clearly to reflect the income of the corporations.

The House bill affects the \$25,000 surtax exemption of corporations in controlled groups in three ways:

1. If corporations in a controlled group do not elect alternative 2 or 3, the bill limits corporations in the group to one surtax exemption to be divided among members of the group, either pro rata or in any manner they desire.

2. The bill allows corporations which would be limited to one surtax exemption under the basic rule of the bill above described to elect separate \$25,000 surtax exemptions for each corporation in the group, but only if each corporation agrees to pay an additional 6 percent tax on its first \$25,000 of taxable income.

3. As under present law, certain corporations in parent-subsidiary groups may elect to file consolidated income tax returns. The bill makes no change in the eligibility requirements for filing consolidated returns so that "component members" of a "controlled group" of corporations could elect to file a consolidated income tax return, in lieu of paying tax on the basis of the rules summarized in items 1 or 2, but only if such corporations are also "includible corporations" in an "affiliated group." This alternative, if repeal of the 2-percent tax on consolidated taxable income is considered, is similar to item 1 in that corporations in the group are limited to one surtax exemption; however, additional benefits arise from filing a consolidated return, such as the ability to declare and receive dividends between members of the group without tax, to offset loss of one company against income of another, etc. As under present law, corporations in brother-sister groups may not file consolidated returns.

In the case of brother-sister groups, and in the case of parent-subsidiary groups which do not elect to file consolidated income tax returns, the House bill, in effect, reduces the maximum value of each additional surtax exemption from \$5,500 under present law to a range of \$3,500 for a two-corporation group to a value approaching \$5,000 for large groups. This effect is illustrated by the following example:

Example (2). Using the facts in example (1), corporations X and Y, since they are considered "component members" of a brother-sister "controlled group of corporations," would, under the House bill, be required to divide one \$25,000 surtax exemption between them. Thus, assuming they do not elect to file a multiple surtax exemption return and that the single surtax exemption is split between them on a prorata basis, their total tax liability under the House bill, when it becomes fully effective in 1965, would be \$17,500, computed as follows:

	Taxable income	Tax rate	Tax
X corporation.....	\$25,000	{ \$12,500, at 22 percent.. 12,500, at 48 percent..	\$2,750
Total.....			6,000
			8,750
Y corporation.....	25,000	{ 12,500, at 22 percent.. 12,500, at 48 percent..	2,750
Total.....			6,000
			8,750
Total.....	50,000		17,500

Thus, if corporations X and Y paid tax on this basis, they would, in effect, be treated as one corporation for tax purposes and their tax liability (\$17,500) would be the same as if they were taxed as one corporation (corporation Z in example (1), with taxable income of \$50,000, would also pay a tax of \$17,500). However, it would be expected that corporations X and Y would elect to file a multiple surtax exemption return as provided in the House bill (alternative 2) and would each agree to pay an additional tax of 6 percent on the first \$25,000 of taxable income in lieu of being limited to one surtax exemption. On this basis, each corporation would receive a separate surtax exemption and the combined tax liability of corporations X and Y would be \$14,000, computed as follows:

	Taxable income	Tax rate (percent)	Tax
X corporation.....	\$25,000	28	\$7,000
Y corporation.....	25,000	28	7,000
Total.....	50,000		14,000

Thus, the tax advantage from multiple incorporation in the two-corporation group would be \$3,500 (the excess of the \$17,500 tax that would be paid if taxed as one corporation, over the \$14,000 tax that would be paid by filing a multiple surtax exemption return). As a group becomes larger, the maximum tax value of an extra surtax exemption increases due to the fact the value of the extra surtax exemption, \$5,000 per additional corporation in the group (\$6,500 less the \$1,500 additional tax attributable to that corporation), would be reduced by an amount equal to the \$1,500 additional tax attributable to the first member of the group divided by the number of members in the group in excess of one.

TABLE —.—Maximum value of extra surtax exemptions

Number of component members in the controlled group	Determined under the bill assuming filing of multiple surtax exemption returns		Total value under present law	Total value under House bill when fully effective but computed without regard to sec. 223 of the bill
	Maximum value per corporation in the group in excess of 1	Total value		
2.....	\$3,500	\$3,500	\$5,500	\$6,500
5.....	4,625	18,500	22,000	26,000
10.....	4,822	43,398	49,500	58,500
100.....	4,985	493,515	544,500	643,500

Test of control.—In determining whether a controlled group of corporation exists, the bill draws a distinction between a parent-subsidary controlled group and a brother-sister controlled group. In a parent-subsidary controlled group the parent corporation must own at least 80 percent of the total combined voting power of all classes of stock entitled to vote, or at least 80 percent of the total value of all classes of stock, of one or more subsidiary corporations. The parent-subsidary controlled group also includes corporations which are 80 percent commonly owned by corporations in the group.

Example (1).—Corporation A owns 80 percent of the stock of corporation B, and corporation B owns 80 percent of the stock of corporation C. Corporations A, B, and C constitute a parent-subsidary controlled group.

Example (2).—Corporation A owns 80 percent of the stock of corporations B and C and corporations B and C each own 50 percent of the stock of corporation D. Corporations A, B, C, and D constitute a parent-subsidary controlled group.

A brother-sister controlled group exists where a single individual, trust, or estate owns at least 80 percent of the total combined voting power of all classes of stock entitled to vote, or at least 80 percent of the total value of all classes of stock, of each of two or more corporations.

In determining whether a corporation, or a single individual, trust, or estate owns 80 percent of the value or voting power of the stock of a corporation, the stock of the corporation is considered not to include—

1. Nonvoting preferred stock;
2. Treasury stock; and
3. "Excluded stock."

"Excluded stock," in determining if a parent-subsidary controlled group exists, means stock owned by—

1. Individuals who are 5 percent shareholders of the parent corporation;
2. Officers of the parent corporation;
3. Employees of the subsidiary if the stock is subject to restrictions which favor the parent or subsidiary corporation; and
4. Trusts which are part of a plan of deferred compensation for the benefit of the employees of the parent or subsidiary corporation,

if the parent corporation owns 50 percent or more of the value or voting power of the stock of the subsidiary.

"Excluded stock," in determining if a brother-sister controlled group exists, means stock owned by—

1. A trust forming a part of stock bonus, pension, or profit-sharing plan for the benefit of the employees of the corporation; and
2. Employees of the corporation if the stock is subject to conditions which run in favor of such corporation or the common owner and which substantially restrict or limit the employee's right to dispose of stock,

if the individual, estate, or trust owns 50 percent or more of the value or voting power of the stock of the corporation.

In determining whether a single individual trust or estate owns 80 percent of the value or voting power of the stock of a corporation,

such individual, trust, or estate is, in addition to the stock owned directly, considered to own stock by virtue of certain relatively limited attribution rules. The first rule provides that an individual is considered to own stock owned by his spouse. However, in order to prevent attribution in cases where a husband and wife may each own and operate their separate businesses, the bill provides that an individual is not considered to own stock owned by or for his spouse if—

1. The individual does not directly own stock in the corporation in which his spouse owns stock;

2. The individual is not a director or employee of such corporation and does not take part in the management of such corporation;

3. Not more than 50 percent of the gross income of the corporation is derived from rents, royalties, dividends, interest, and annuities; and

4. The stock or the corporation owned by the spouse is not at any time during the taxable year subject to conditions which substantially restrict or limit the spouse's right to dispose of such stock if such right runs in favor of the individual or his children who have not attained age 21 years.

The bill also provides limited attribution rules in cases involving other family relationships. Thus, an individual is always considered to own stock owned by his children who have not attained age 21. However, an individual is considered to own the stock owned by his children who have attained age 21 and grandchildren only if such individual owns, directly or indirectly, more than 50 percent of the value or voting power of the stock in the corporation, and vice versa.

There is no attribution between brothers and sisters. Limited attribution rules are also provided in cases involving stock held by trusts, estates, and partnerships. Stock owned by a corporation, directly or indirectly, is considered to be owned proportionately by any shareholder owning a 5 percent or greater interest in the corporation. If an individual, estate, trust, or corporation owns an option to buy stock in a corporation, for purposes of ascertaining a controlled group, such "person" is deemed to own the stock covered by the option.

Method for determining existence of a controlled group of corporations.—Determination of whether a controlled group of corporations exists is made once each year.

The term "component member" does not include the following type corporations:

1. Exempt corporations which do not have unrelated business income;

2. Foreign corporations which are not engaged in trade or business in the United States;

3. Subsidiary corporations which are franchised to sell articles produced by a parent corporation (or other member of a group) if there is a bona fide plan by which the parent or common owner is to dispose of its stock interest to an employee or employees of the franchised corporation; and

4. Some life insurance and mutual insurance companies. However, if there are two or more life insurance companies in a group, they are treated as a separate controlled group.

Requirements for electing to file multiple surtax exemption returns.—For the component members of a controlled group to elect to claim multiple surtax exemptions, all component members of the group must join in the election. Such an election must be made within 3 years after the close of a taxable year. An election once made may be terminated by—

- (1) consent of the members;
- (2) refusal of a new member of the controlled group to consent;
- (3) filing of a consolidated return by any component member of the group; or
- (4) termination of the group.

Once an election is terminated, the bill provides that the group may not again elect multiple surtax exemptions until the expiration of 5 years.

Amendments to section 1551

Under present law, if a corporation transfers all or part of its property (other than money) to a corporation which was created for the purpose of acquiring such property, or was not actively engaged in business at the time of the acquisition, the transferee corporation is not permitted the \$25,000 surtax exemption or the \$100,000 accumulated earnings credit if after the transfer the transferor or its shareholders, or both, are in control of the transferee, unless the transferee establishes by the clear preponderance of the evidence that the securing of the surtax exemption or the accumulated earnings credit was not a major purpose of the transfer.

The House bill makes two basic changes to present section 1551.

First, as presently interpreted, existing law applies only to *direct* transfers of property other than money. The House bill provides that section 1551 would also apply to *indirect* transfers of property other than money. The application of this change is illustrated by the following example:

Example.—On December 1, 1964, corporation X organizes corporation Y as a wholly owned subsidiary and transfers cash to such corporation which it then uses to purchase machinery from corporation X. Corporation X would be considered to have made an *indirect* transfer of property (other than money) to corporation Y.

Second, present law applies only to transfers from one corporation to another corporation. The House bill extends the application of section 1551 to transfers of property (other than money) by an individual to a corporation which he and not more than four other individuals control. For purposes of determining whether the transferor is considered to be in control of the transferee corporation, the individual who makes the transfer, together with no more than four other individuals, must own at least 80 percent of the value or voting power of the stock in two or more corporations, one of which is the transferee corporation, and the same individuals must own more than 50 percent of the value or voting power of the stock in each corporation (only taking into account identical stockholdings) after the transfer. In determining ownership of stock, the attribution rules for determining if a controlled group exists are applicable.

The application of this provision is illustrated by the following example:

Example.—On July 1, 1965, individual A owns 55 percent, and individual B owns 45 percent, of the stock of corporation X. On

such date, A and B each transfer property (other than money) to a newly created corporation, corporation Y. A receives 45 percent, and B receives 55 percent, of the stock of corporation Y. The transfer of the property to corporation Y is subject to the provisions of section 1551 since corporations X and Y are each more than 80 percent owned by 5 or fewer individuals (A and B) and such individuals collectively owned more than 50 percent of the stock of both corporations by taking into account only their identical holdings.

	Corpora- tion X	Corpora- tion Y	Identical holdings
A-----	55	45	45
B-----	45	55	45
Total-----	100	100	90

Effective date

This provision applies to taxable years ending after December 31, 1963, except that the amendments relating to transfers to controlled corporations apply to transfers made after June 12, 1963.

Revenue effect

It is expected these provisions will increase revenues by about \$35 million a year.

SECTION 13

**BILL AS PASSED BY THE HOUSE AND REFERRED TO
THE SENATE COMMITTEE ON FINANCE**

88TH CONGRESS
1ST SESSION

H. R. 8363

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 30, 1963

Read twice and referred to the Committee on Finance

AN ACT

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DECLARATION BY CONGRESS.**

4 It is the sense of Congress that the tax reduction pro-
5 vided by this Act through stimulation of the economy, will,
6 after a brief transitional period, raise (rather than lower)
7 revenues and that such revenue increases should first be
8 used to eliminate the deficits in the administrative budgets
9 and then to reduce the public debt. To further the objective

II

1 of obtaining balanced budgets in the near future, Congress
 2 by this action, recognizes the importance of taking all reason-
 3 able means to restrain Government spending and urges the
 4 President to declare his accord with this objective.

5 **SEC. 2. SHORT TITLE, ETC.**

6 (a) **SHORT TITLE.**—This Act may be cited as the
 7 “Revenue Act of 1963”.

8 (b) **AMENDMENT OF 1954 CODE.**—Except as otherwise
 9 expressly provided, whenever in this Act an amendment or
 10 repeal is expressed in terms of an amendment to, or repeal
 11 of, a section or other provision, the reference shall be con-
 12 sidered to be made to a section or other provision of the
 13 Internal Revenue Code of 1954.

14 **Title I—Reduction Of Income Tax Rates**
 15 **And Related Amendments**

16 **PART I—INDIVIDUALS**

17 **SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.**

18 (a) **INDIVIDUALS OTHER THAN HEADS OF HOUSE-**
 19 **HOLDS.**—Subsection (a) of section 1 (relating to rates of tax
 20 on individuals other than heads of households) is amended
 21 to read as follows:

22 “(a) **RATES OF TAX ON INDIVIDUALS.**—

23 “(1) **TAXABLE YEARS BEGINNING IN 1964.**—In
 24 the case of a taxable year beginning on or after January
 25 1, 1964, and before January 1, 1965, there is hereby im-

1 posed on the taxable income of every individual (other
 2 than a head of a household to whom subsection (b) ap-
 3 plies) a tax determined in accordance with the follow-
 4 ing table:

"If the taxable income is:	The tax is:
Not over \$500-----	16% of the taxable income.
Over \$500 but not over \$1,000-----	\$80, plus 16.5% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$162.50, plus 17.5% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$250, plus 18% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$340, plus 20% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$740, plus 23.5% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,210, plus 27% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,750, plus 30.5% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,360, plus 34% of excess over \$10,000.
Over \$12,000 but not over \$14,000----	\$3,040, plus 37.5% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,790, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,610, plus 44.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$5,500, plus 47.5% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$6,450, plus 50.5% of excess over \$20,000.
Over \$22,000 but not over \$26,000----	\$7,460, plus 53.5% of excess over \$22,000.
Over \$26,000 but not over \$32,000----	\$9,600, plus 56% of excess over \$26,000.
Over \$32,000 but not over \$38,000----	\$12,960, plus 58.5% of excess over \$32,000.
Over \$38,000 but not over \$44,000----	\$16,470, plus 61% of excess over \$38,000.
Over \$44,000 but not over \$50,000----	\$20,130, plus 63.5% of excess over \$44,000.
Over \$50,000 but not over \$60,000----	\$23,940, plus 66% of excess over \$50,000.
Over \$60,000 but not over \$70,000----	\$30,540, plus 68.5% of excess over \$60,000.
Over \$70,000 but not over \$80,000----	\$37,390, plus 71% of excess over \$70,000.
Over \$80,000 but not over \$90,000----	\$44,490, plus 73.5% of excess over \$80,000.

"If the taxable income is:**The tax is:**

Over \$90,000 but not over \$100,000---	\$51,840, plus 75% of excess over \$90,000.
Over \$100,000 but not over \$200,000--	\$59,340, plus 76.5% of excess over \$100,000.
Over \$200,000-----	\$135,840, plus 77% of excess over \$200,000.

1 “(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In the case of a taxable year beginning
3 after December 31, 1964, there is hereby imposed on
4 the taxable income of every individual (other than a
5 head of a household to whom subsection (b) applies) a
6 tax determined in accordance with the following table:

"If the taxable income is:**The tax is:**

Not over \$500-----	14% of the taxable income.
Over \$500 but not over \$1,000-----	\$70, plus 15% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$145, plus 16% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$225, plus 17% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$310, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$690, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,130, plus 25% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,630, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,190, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000----	\$2,830, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,550, plus 39% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,330, plus 42% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$5,170, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$6,070, plus 48% of excess over \$20,000.
Over \$22,000 but not over \$26,000----	\$7,030, plus 50% of excess over \$22,000.
Over \$26,000 but not over \$32,000----	\$9,030, plus 53% of excess over \$26,000.
Over \$32,000 but not over \$38,000----	\$12,210, plus 55% of excess over \$32,000.
Over \$38,000 but not over \$44,000----	\$15,510, plus 58% of excess over \$38,000.

"If the taxable income is:	The tax is:
Over \$44,000 but not over \$50,000-----	\$18,990, plus 60% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$22,590, plus 62% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$28,790, plus 64% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$35,190, plus 66% of excess over \$70,000.
Over \$80,000 but not over \$90,000-----	\$41,790, plus 68% of excess over \$80,000.
Over \$90,000 but not over \$100,000----	\$48,590, plus 69% of excess over \$90,000.
Over \$100,000-----	\$55,490, plus 70% of excess over \$100,000."

1 (b) HEADS OF HOUSEHOLDS.—Paragraph (1) of sec-
2 tion 1 (b) (relating to rates of tax on heads of households)
3 is amended to read as follows:

4 "(1) RATES OF TAX.—

5 "(A) TAXABLE YEARS BEGINNING IN 1964.—

6 In the case of a taxable year beginning on or after
7 January 1, 1964, and before January 1, 1965,
8 there is hereby imposed on the taxable income of
9 every individual who is the head of a household a
10 tax determined in accordance with the following
11 table:

"If the taxable income is:	The tax is:
Not over \$1,000-----	16% of the taxable income.
Over \$1,000 but not over \$2,000-----	\$160, plus 17.5% of excess over \$1,000.
Over \$2,000 but not over \$4,000-----	\$335, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$715, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,155, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,615, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,155, plus 29% of excess over \$10,000.
Over \$12,000 but not over \$14,000----	\$2,735, plus 32% of excess over \$12,000.

"If the taxable income is:**The tax is:**

Over \$14,000 but not over \$16,000----	\$3,375, plus 34% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,055, plus 37.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$4,805, plus 39% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$5,585, plus 42.5% of excess over \$20,000.
Over \$22,000 but not over \$24,000----	\$6,435, plus 43.5% of excess over \$22,000.
Over \$24,000 but not over \$26,000----	\$7,305, plus 45.5% of excess over \$24,000.
Over \$26,000 but not over \$28,000----	\$8,215, plus 47% of excess over \$26,000.
Over \$28,000 but not over \$32,000----	\$9,155, plus 48.5% of excess over \$28,000.
Over \$32,000 but not over \$36,000----	\$11,095, plus 51.5% of excess over \$32,000.
Over \$36,000 but not over \$38,000----	\$13,155, plus 53% of excess over \$36,000.
Over \$38,000 but not over \$40,000----	\$14,215, plus 54% of excess over \$38,000.
Over \$40,000 but not over \$44,000----	\$15,295, plus 56% of excess over \$40,000.
Over \$44,000 but not over \$50,000----	\$17,535, plus 58.5% of excess over \$44,000.
Over \$50,000 but not over \$52,000----	\$21,045, plus 59.5% of excess over \$50,000.
Over \$52,000 but not over \$60,000----	\$22,235, plus 61% of excess over \$52,000.
Over \$60,000 but not over \$64,000----	\$27,115, plus 62% of excess over \$60,000.
Over \$64,000 but not over \$70,000----	\$29,595, plus 63.5% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$33,405, plus 65% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$37,305, plus 66% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$39,945, plus 67% of excess over \$80,000.
Over \$88,000 but not over \$90,000----	\$45,305, plus 69% of excess over \$88,000.
Over \$90,000 but not over \$100,000---	\$46,685, plus 69.5% of excess over \$90,000.
Over \$100,000 but not over \$120,000--	\$53,635, plus 71% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$67,835, plus 72.5% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$82,335, plus 74% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$97,135, plus 75% of excess over \$160,000.
Over \$180,000 but not over \$200,000--	\$112,135, plus 75.5% of excess over \$180,000.
Over \$200,000-----	\$127,235, plus 77% of excess over \$200,000.

1 “(B) TAXABLE YEARS BEGINNING AFTER
2 DECEMBER 31, 1964.—In the case of a taxable year
3 beginning after December 31, 1964, there is hereby
4 imposed on the taxable income of every individual
5 who is the head of a household a tax determined in
6 accordance with the following table:

“If the taxable income is:	The tax is:
Not over \$1,000-----	14% of the taxable income.
Over \$1,000 but not over \$2,000-----	\$140, plus 16% of excess over \$1,000.
Over \$2,000 but not over \$4,000-----	\$300, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$660, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,060, plus 22% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,500, plus 25% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,000, plus 27% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$2,540, plus 31% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,160, plus 32% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$3,800, plus 35% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$4,500, plus 36% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$5,220, plus 40% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$6,020, plus 41% of excess over \$22,000.
Over \$24,000 but not over \$26,000-----	\$6,840, plus 43% of excess over \$24,000.
Over \$26,000 but not over \$28,000-----	\$7,700, plus 45% of excess over \$26,000.
Over \$28,000 but not over \$32,000-----	\$8,600, plus 46% of excess over \$28,000.
Over \$32,000 but not over \$36,000-----	\$10,440, plus 48% of excess over \$32,000.
Over \$36,000 but not over \$38,000-----	\$12,360, plus 50% of excess over \$36,000.
Over \$38,000 but not over \$40,000-----	\$13,360, plus 52% of excess over \$38,000.
Over \$40,000 but not over \$44,000-----	\$14,400, plus 53% of excess over \$40,000.
Over \$44,000 but not over \$50,000-----	\$16,520, plus 55% of excess over \$44,000.
Over \$50,000 but not over \$52,000-----	\$19,820, plus 56% of excess over \$50,000.

"If the taxable income is:	The tax is:
Over \$52,000 but not over \$64,000----	\$20,940, plus 58% of excess over \$52,000.
Over \$64,000 but not over \$70,000----	\$27,900, plus 59% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$31,440, plus 61% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$35,100, plus 62% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$37,580, plus 63% of excess over \$80,000.
Over \$88,000 but not over \$100,000---	\$42,620, plus 64% of excess over \$88,000.
Over \$100,000 but not over \$120,000--	\$50,300, plus 66% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$63,500, plus 67% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$76,900, plus 68% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$90,500, plus 69% of excess over \$160,000.
Over \$180,000-----	\$104,300, plus 70% of excess over \$180,000."

1 **SEC. 112. MINIMUM STANDARD DEDUCTION.**

2 (a) **GENERAL RULE.**—Section 141 (relating to standard
3 deduction) is amended to read as follows:

4 **"SEC. 141. STANDARD DEDUCTION.**

5 "(a) **STANDARD DEDUCTION.**—Except as otherwise
6 provided in this section, the standard deduction referred to
7 in this title is the larger of the 10-percent standard deduction
8 or the minimum standard deduction. The standard deduc-
9 tion shall not exceed \$1,000, except that in the case of a
10 separate return by a married individual the standard deduc-
11 tion shall not exceed \$500.

12 "(b) **TEN-PERCENT STANDARD DEDUCTION.**—The 10-
13 percent standard deduction is an amount equal to 10 percent
14 of the adjusted gross income.

1 “(c) MINIMUM STANDARD DEDUCTION.—The mini-
2 mum standard deduction is an amount equal to the sum of—

3 “(1) \$100, multiplied by the number of exemptions
4 allowed for the taxable year as a deduction under section
5 151, plus

6 “(2) (A) \$200, in the case of a joint return of a
7 husband and wife under section 6013,

8 “(B) \$200, in the case of a return of an individual
9 who is not married, or

10 “(C) \$100, in the case of a separate return by a
11 married individual.

12 “(d) MARRIED INDIVIDUALS FILING SEPARATE RE-
13 TURNS.—Notwithstanding subsection (a) —

14 “(1) The minimum standard deduction shall not
15 apply in the case of a separate return by a married in-
16 dividual if the tax of the other spouse is determined with
17 regard to the 10-percent standard deduction.

18 “(2) A married individual filing a separate return
19 may, if the minimum standard deduction is less than the
20 10-percent standard deduction, and if the minimum
21 standard deduction of his spouse is greater than the
22 10-percent standard deduction of such spouse, elect
23 (under regulations prescribed by the Secretary or his
24 delegate) to have his tax determined with regard to

1 the minimum standard deduction in lieu of being de-
 2 termined with regard to the 10-percent standard de-
 3 duction.”

4 (b) AMENDMENT OF SECTION 2.—The second sentence
 5 of section 2 (a) (relating to tax in case of joint return or re-
 6 turn of surviving spouse) is amended by striking out “and
 7 section 3” and inserting in lieu thereof “, section 3, and sec-
 8 tion 141”.

9 (c) AMENDMENTS OF SECTION 144.—

10 (1) The first sentence of section 144 (b) (relating
 11 to change of election of standard deduction) is amended
 12 to read as follows: “Under regulations prescribed by
 13 the Secretary or his delegate, a change of election
 14 with respect to the standard deduction for any taxable
 15 year may be made after the filing of the return for such
 16 year.”

17 (2) Section 144 is amended by adding at the end
 18 thereof the following new subsection:

19 “(c) CHANGE OF ELECTION DEFINED.—For purposes
 20 of this title, the term ‘change of election with respect to the
 21 standard deduction’ means—

22 “(1) a change of an election to take (or not to
 23 take) the standard deduction;

1 “(2) a change of an election to pay (or not to
2 pay) the tax under section 3; or

3 “(3) a change of an election under section
4 141 (d) (2).”

5 (d) CONFORMING AMENDMENTS.—

6 (1) Subparagraph (A) of section 6212 (c) (2)
7 (relating to cross references) is amended by striking out
8 “to take” and inserting in lieu thereof “with respect to
9 the”.

10 (2) Paragraph (3) of section 6504 (relating to
11 cross references) is amended by striking out “to take”
12 and inserting in lieu thereof “with respect to the”.

13 SEC. 113. RELATED AMENDMENTS.

14 (a) RETIREMENT INCOME CREDIT.—Section 37 (a)
15 (relating to credit against tax for retirement income) is
16 amended by striking out “an amount equal to the amount
17 received by such individual as retirement income (as defined
18 in subsection (c) and as limited by subsection (d)), multi-
19 plied by the rate provided in section 1 for the first \$2,000
20 of taxable income;” and inserting in lieu thereof “an amount
21 equal to 15 percent of the amount received by such individual

1 as retirement income (as defined in subsection (c) and as
2 limited by subsection (d)) ;”.

3 (b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—

4 Section 871 (relating to tax on nonresident alien individuals)
5 is amended—

6 (1) By striking out “is more than \$15,400, except
7 that—” in subsection (b) and inserting in lieu thereof
8 “is more than \$19,000 in the case of a taxable year
9 beginning in 1964 or more than \$21,200 in the case of
10 a taxable year beginning after 1964, except that—”.

11 (2) By striking out the heading to subsection (a)
12 and inserting in lieu thereof the following:

13 “(a) NO UNITED STATES BUSINESS—30 PERCENT
14 TAX.—”.

15 (3) By striking out the heading to subsection (b)
16 and inserting in lieu thereof the following:

17 “(b) NO UNITED STATES BUSINESS—REGULAR
18 TAX.—”.

19 SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.

(1) For optional tax if adjusted gross income is less than \$5,000, see section 301 of this Act.

(2) For income tax collected at source, see section 302 of this Act.

PART II—CORPORATIONS**SEC. 121. REDUCTION OF TAX ON CORPORATIONS.**

Section 11 (relating to tax on corporations) is amended to read as follows:

“SEC. 11. TAX IMPOSED.

“(a) **CORPORATIONS IN GENERAL.**—A tax is hereby imposed for each taxable year on the taxable income of every corporation. The tax shall consist of a normal tax computed under subsection (b) and a surtax computed under subsection (c).

“(b) **NORMAL TAX.**—The normal tax is equal to the following percentage of the taxable income:

“(1) 30 percent, in the case of a taxable year beginning before January 1, 1964, and

“(2) 22 percent, in the case of a taxable year beginning after December 31, 1963.

“(c) **SURTAX.**—The surtax is equal to the following percentage of the amount by which the taxable income exceeds the surtax exemption for the taxable year:

“(1) 22 percent, in the case of a taxable year beginning before January 1, 1964,

1 “(2) 28 percent, in the case of a taxable year
2 beginning after December 31, 1963, and before Jan-
3 uary 1, 1965, and

4 “(3) 26 percent, in the case of a taxable year
5 beginning after December 31, 1964.

6 “(d) SURTAX EXEMPTION.—For purposes of this sub-
7 title, the surtax exemption for any taxable year is \$25,000
8 or the amount determined under section 1561 (relating to
9 surtax exemptions in case of certain controlled corporations).

10 “(e) EXCEPTIONS.—Subsection (a) shall not apply to
11 a corporation subject to a tax imposed by—

12 “(1) section 594 (relating to mutual savings banks
13 conducting life insurance business),

14 “(2) subchapter L (sec. 801 and following, relat-
15 ing to insurance companies),

16 “(3) subchapter M (sec. 851 and following, re-
17 lating to regulated investment companies and real estate
18 investment trusts), or

19 “(4) section 881 (a) (relating to foreign corpora-
20 tions not engaged in business in United States).”

21 **SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.**

22 (a) INSTALLMENT PAYMENTS OF ESTIMATED INCOME
23 TAX BY CORPORATIONS.—Section 6154 (relating to install-

1 ment payments of estimated income tax by corporations)
 2 is amended to read as follows:

3 **“SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED IN-**
 4 **COME TAX BY CORPORATIONS.**

5 “(a) **AMOUNT AND TIME FOR PAYMENT OF EACH**
 6 **INSTALLMENT.**—The amount of estimated tax (as defined
 7 in section 6016 (b)) with respect to which a declaration is
 8 required under section 6016 shall be paid as follows:

9 “(1) **PAYMENT IN 4 INSTALLMENTS.**—If the
 10 declaration is filed on or before the 15th day of the
 11 4th month of the taxable year, the estimated tax shall
 12 be paid in 4 installments. The amount and time for
 13 payment of each installment shall be determined in
 14 accordance with the following table:

“If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964-----	1	1	25	25
1965-----	4	4	25	25
1966-----	9	9	25	25
1967-----	14	14	25	25
1968-----	19	19	25	25
1969-----	22	22	25	25
1970 or any subsequent year-----	25	25	25	25

1 “(2) PAYMENT IN 3 INSTALLMENTS.—If the dec-
 2 laration is filed after the 15th day of the 4th month and
 3 not after the 15th day of the 6th month of the taxable
 4 year, and is not required by section 6074 (a) to be
 5 filed on or before the 15th day of such 4th month, the
 6 estimated tax shall be paid in 3 installments. The
 7 amount and time for payment of each installment shall
 8 be determined in accordance with the following table:

“If the taxable year begins in—	The following percentages of the esti- mated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964-----	1½	25½	25½
1965-----	5½	26½	26½
1966-----	12	28	28
1967-----	18½	29½	29½
1968-----	25½	31½	31½
1969-----	29½	32½	32½
1970 or any subsequent year-----	33½	33½	33½

9 “(3) PAYMENT IN 2 INSTALLMENTS.—If the
 10 declaration of estimated tax is filed after the 15th day
 11 of the 6th month and not after the 15th day of the 9th
 12 month of the taxable year, and is not required by section
 13 6074 (a) to be filed on or before the 15th day of such
 14 6th month, the estimated tax shall be paid in 2 install-
 15 ments. The amount and time for payment of each

1 installment shall be determined in accordance with the
 2 following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964-----	26	26
1965-----	29	29
1966-----	34	34
1967-----	39	39
1968-----	44	44
1969-----	47	47
1970 or any subsequent year-----	50	50

3 “(4) PAYMENT IN 1 INSTALLMENT.—If the
 4 declaration of estimated tax is filed after the 15th day
 5 of the 9th month of the taxable year, and is not required
 6 by section 6074 (a) to be filed on or before the 15th
 7 day of such 9th month, the estimated tax shall be paid
 8 in 1 installment. The amount and time for payment of
 9 the installment shall be determined in accordance with
 10 the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964-----	52
1965-----	58
1966-----	68
1967-----	78
1968-----	88
1969-----	94
1970 or any subsequent year-----	100

1 “(5) LATE FILING.—If the declaration is filed after
2 the time prescribed in section 6074 (a) (determined
3 without regard to any extension of time for filing the
4 declaration under section 6081), paragraphs (2), (3),
5 and (4) of this subsection shall not apply, and there
6 shall be paid at the time of such filing all installments
7 of estimated tax which would have been payable on or
8 before such time if the declaration had been filed within
9 the time prescribed in section 6074 (a), and the remain-
10 ing installments shall be paid at the times at which,
11 and in the amounts in which, they would have been pay-
12 able if the declaration had been so filed.

13 “(b) AMENDMENT OF DECLARATION.—If any amend-
14 ment of a declaration is filed, the amount of each remaining
15 installment (if any) shall be the amount which would have
16 been payable if the new estimate had been made when the
17 first estimate for the taxable year was made, increased or de-
18 creased (as the case may be), by the amount computed by
19 dividing—

1 “(1) the difference between (A) the amount of
 2 estimated tax required to be paid before the date on
 3 which the amendment is made, and (B) the amount of
 4 estimated tax which would have been required to be paid
 5 before such date if the new estimate had been made
 6 when the first estimate was made, by

7 “(2) the number of installments remaining to be
 8 paid on or after the date on which the amendment is
 9 made.

10 “(c) APPLICATION TO SHORT TAXABLE YEAR.—The
 11 application of this section to taxable years of less than 12
 12 months shall be in accordance with regulations prescribed by
 13 the Secretary or his delegate.

14 “(d) INSTALLMENTS PAID IN ADVANCE.—At the elec-
 15 tion of the corporation, any installment of the estimated tax
 16 may be paid before the date prescribed for its payment.”

17 (b) TIME FOR FILING DECLARATIONS OF ESTIMATED
 18 INCOME TAX BY CORPORATIONS.—Section 6074 (relating

1 to time for filing declarations of estimated income tax by cor-
 2 porations) is amended to read as follows:

3 **“SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTI-**
 4 **MATED INCOME TAX BY CORPORATIONS.**

5 “(a) **GENERAL RULE.**—The declaration of estimated tax
 6 required of corporations by section 6016 shall be filed as
 7 follows:

“If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year-----	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year-----	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year-----	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year-----	the 15th day of the 12th month of the taxable year

8 “(b) **AMENDMENT.**—An amendment of a declaration
 9 may be filed in any interval between installment dates
 10 prescribed for the taxable year, but only one amendment
 11 may be filed in each such interval.

12 “(c) **SHORT TAXABLE YEAR.**—The application of this
 13 section to taxable years of less than 12 months shall be in
 14 accordance with regulations prescribed by the Secretary or
 15 his delegate.”

1 (c) FAILURE BY CORPORATIONS TO PAY ESTIMATED
2 INCOME TAX.—

3 (1) The last sentence of section 6655 (c) (2) (re-
4 lating to period of underpayment) is amended to read
5 as follows: “For purposes of this paragraph, a payment
6 of estimated tax on any installment date shall be con-
7 sidered a payment of any previous underpayment only to
8 the extent such payment exceeds the amount of the in-
9 stallment determined under subsection (b) (1) for such
10 installment date.”

11 (2) Paragraph (3) of section 6655 (d) (relating
12 to exception) is amended to read as follows:

13 “(3) (A) An amount equal to 70 percent of the
14 tax for the taxable year computed by placing on an
15 annualized basis the taxable income:

16 “ (i) for the first 3 months of the taxable year,
17 in the case of the installment required to be paid in
18 the 4th month,

19 “ (ii) for the first 3 months or for the first 5
20 months of the taxable year, in the case of the in-
21 stallment required to be paid in the 6th month,

22 “ (iii) for the first 6 months or for the first 8
23 months of the taxable year in the case of the install-
24 ment required to be paid in the 9th month, and

1 “(iv) for the first 9 months or for the first 11
2 months of the taxable year, in the case of the in-
3 stallment required to be paid in the 12th month of
4 the taxable year.

5 “(B) For purposes of this paragraph, the taxable
6 income shall be placed on an annualized basis by—

7 “(i) multiplying by 12 the taxable income re-
8 ferred to in subparagraph (A), and

9 “(ii) dividing the resulting amount by the num-
10 ber of months in the taxable year (3, 5, 6, 8, 9, or
11 11, as the case may be) referred to in subparagraph
12 (A).”

13 (d) TECHNICAL AMENDMENT.—Section 6016(f) (re-
14 lating to declarations of estimated income tax by corpora-
15 tions) is amended to read as follows:

16 “(f) CROSS REFERENCE.—

 “For provisions relating to the number of amendments
 which may be filed, see section 6074(b).”

17 SEC. 123. RELATED AMENDMENTS.

18 (a) TAX ON MUTUAL INSURANCE COMPANIES
19 (OTHER THAN LIFE, ETC.)—

20 (1) Subsection (a) of section 821 (relating to
21 imposition of tax) is amended to read as follows:

22 “(a) IMPOSITION OF TAX.—A tax is hereby imposed
23 for each taxable year beginning after December 31, 1963,

1 on the mutual insurance company taxable income of every
 2 mutual insurance company (other than a life insurance com-
 3 pany and other than a fire, flood, or marine insurance com-
 4 pany subject to the tax imposed by section 831). Such
 5 tax shall consist of—

6 “(1) NORMAL TAX.—A normal tax of 22 percent
 7 of the mutual insurance company taxable income, or 44
 8 percent of the amount by which such taxable income
 9 exceeds \$6,000, whichever is the lesser; plus

10 “(2) SURTAX.—A surtax on the mutual insurance
 11 company taxable income computed as provided in sec-
 12 tion 11(c) as though the mutual insurance company
 13 taxable income were the taxable income referred to in
 14 section 11(c).”

15 (2) Paragraph (1) of section 821(c) (relating to
 16 alternative tax for certain small companies) is amended
 17 to read as follows:

18 “(1) IMPOSITION OF TAX.—In the case of taxable
 19 years beginning after December 31, 1963, there is here-
 20 by imposed for each taxable year on the income of each
 21 mutual insurance company to which this subsection
 22 applies a tax (which shall be in lieu of the tax im-
 23 posed by subsection (a)) computed as follows:

24 “(A) NORMAL TAX.—A normal tax of 22 per-
 25 cent of the taxable investment income, or 44 per-

1 cent of the amount by which such taxable income
2 exceeds \$3,000, whichever is the lesser; plus

3 “(B) SURTAX.—A surtax on the taxable in-
4 vestment income computed as provided in section
5 11 (c) as though the taxable investment income
6 were the taxable income referred to in section
7 11 (c).”

8 (b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMES-
9 TIC CORPORATIONS.—Subsection (b) of section 963 (relat-
10 ing to receipt of minimum distributions by domestic cor-
11 porations) is amended to read as follows:

12 “(b) MINIMUM DISTRIBUTION.—For purposes of this
13 section, a minimum distribution with respect to the earnings
14 and profits for the taxable year of any controlled foreign cor-
15 poration or corporations shall, in the case of any United
16 States shareholder, be its pro rata share of an amount deter-
17 mined in accordance with whichever of the following tables
18 applies to the taxable year:

19 “(1) TAXABLE YEARS BEGINNING IN 1963.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10-----	90
10 or over but less than 20-----	86
20 or over but less than 28-----	82
28 or over but less than 34-----	75
34 or over but less than 39-----	68
39 or over but less than 42-----	55
42 or over but less than 44-----	40
44 or over but less than 46-----	27
46 or over but less than 47-----	14
47 or over-----	0

1 “(2) TAXABLE YEARS BEGINNING IN 1964.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10-----	87
10 or over but less than 19-----	83
19 or over but less than 27-----	79
27 or over but less than 33-----	72
33 or over but less than 37-----	65
37 or over but less than 40-----	53
40 or over but less than 42-----	38
42 or over but less than 44-----	26
44 or over but less than 45-----	13
45 or over-----	0

2 “(3) TAXABLE YEARS BEGINNING AFTER DECEM-
3 BER 31, 1964.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 9-----	83
9 or over but less than 18-----	79
18 or over but less than 26-----	76
26 or over but less than 32-----	69
32 or over but less than 36-----	63
36 or over but less than 39-----	51
39 or over but less than 41-----	37
41 or over but less than 42-----	25
42 or over but less than 43-----	13
43 or over-----	0”

4 (c) AMENDMENT OF SECTION 242.—Section 242 (a)
5 (relating to deduction for partially tax-exempt interest) is
6 amended by adding at the end thereof the following new
7 sentence: “No deduction shall be allowed under this section
8 for purposes of any surtax imposed by this subtitle.”

1 **PART III—EFFECTIVE DATES**

2 **SEC. 131. GENERAL RULE.**

3 Except for purposes of section 21 of the Internal Reve-
4 nue Code of 1954 (relating to effect of changes in rates
5 during a taxable year), the amendments made by parts
6 I and II of this title shall apply with respect to taxable
7 years beginning after December 31, 1963.

8 **SEC. 132. FISCAL YEAR TAXPAYERS.**

9 Effective with respect to taxable years ending after
10 December 31, 1963, subsection (d) of section 21 (relating
11 to effect of changes in rates during a taxable year) is
12 amended to read as follows:

13 “(d) **CHANGES MADE BY REVENUE ACT OF 1963.—**

14 “(1) **INDIVIDUALS.—**In applying subsection (a)
15 to the taxable year of an individual beginning in 1963
16 and ending in 1964—

17 “(A) the rate of tax for the period on and after
18 January 1, 1964, shall be applied to the tax-
19 able income determined as if part IV of subchapter
20 B (relating to standard deduction for individuals),
21 as amended by the Revenue Act of 1963, applied
22 to taxable years ending after December 31, 1963,
23 and

24 “(B) section 4 (relating to rules for optional

1 tax), as amended by such Act, shall be applied to
2 taxable years ending after December 31, 1963.

3 In applying subsection (a) to a taxable year of an
4 individual beginning in 1963 and ending in 1964, or
5 beginning in 1964 and ending in 1965, the change in
6 the tax imposed under section 3 shall be treated as a
7 change in a rate of tax.

8 “(2) CORPORATIONS.—In applying subsection (a)
9 to a taxable year of a corporation beginning in 1963
10 and ending in 1964, if—

11 “(A) the surtax exemption of such corpora-
12 tion for such taxable year is less than \$25,000 by
13 reason of the application of section 1561 (relating
14 to surtax exemptions in case of certain controlled
15 corporations), or

16 “(B) an additional tax is imposed on the tax-
17 able income of such corporation for such taxable
18 year by section 1562 (b) (relating to additional tax
19 in case of component members of controlled groups
20 which elect multiple surtax exemptions),
21 the change in the surtax exemption, or the imposition
22 of such additional tax, shall be treated as a change in a
23 rate of tax taking effect on January 1, 1964.”

Title II—Structural Changes

SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.

(a) REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT CREDIT FOR CALENDAR YEAR 1964.—

(1) GENERAL RULE.—Section 34 (a) (relating to general rule for credit for dividends received) is amended by striking out “an amount equal to 4 percent of the dividends which are received after July 31, 1954, from domestic corporations and are included in gross income” and inserting in lieu thereof:

“an amount equal to the following percentage of the dividends which are received from domestic corporations and are included in gross income:

“(1) 4 percent of the amount of such dividends which are received before January 1, 1964, and

“(2) 2 percent of the amount of such dividends which are received during the calendar year 1964.”

(2) LIMITATIONS.—Section 34 (b) (2) (relating to limitations on amount of credit) is amended—

(A) by inserting “, or beginning after December 31, 1963” after “1955” at the end of subparagraph (A), and

(B) by inserting “, and beginning before January 1, 1964” after “1954” at the end of subparagraph (B).

1 (b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY
 2 INDIVIDUALS.—Effective with respect to dividends received
 3 after December 31, 1964, section 34 (relating to dividends
 4 received by individuals) is hereby repealed.

5 (c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION
 6 FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVID-
 7 UALS.—Section 116 (a) (relating to partial exclusion from
 8 gross income of dividends received by individuals) is
 9 amended by striking out “\$50” each place it appears and
 10 inserting in lieu thereof “\$100”.

11 (d) CONFORMING AMENDMENTS.—

12 (1) The table of sections for subpart A of part IV
 13 of subchapter A of chapter 1 is amended by striking
 14 out

“Sec. 34. Dividends received by individuals.”

15 (2) Section 35 (b) (1) is amended by striking out
 16 “the sum of the credits allowable under sections 33 and
 17 34” and inserting in lieu thereof “the credit allowable
 18 under section 33”.

19 (3) Section 37 (a) is amended by striking out
 20 “section 34 (relating to credit for dividends received
 21 by individuals),”.

22 (4) Section 46 (a) (3) is amended by striking out
 23 subparagraph (B), and by redesignating subparagraphs
 24 (C) and (D) as “(B)” and “(C)”, respectively.

1 (5) Section 584 (c) (2) is amended by striking
2 out “section 34 or”.

3 (6) (A) Section 642 (a) is amended by striking
4 out paragraph (3) ;

5 (B) Section 642 (i) is amended to read as follows:

6 “(i) CROSS REFERENCES.—

 “(1) For disallowance of standard deduction in case of
 estates and trusts, see section 142(b)(4).

 “(2) For special rule for determining the time of re-
 ceipt of dividends by a beneficiary under section 652 or
 662, see section 116(c)(3).”

7 (C) Section 116 (c) is amended by adding at the
8 end thereof the following new paragraph:

9 “(3) The amount of dividends properly allocable
10 to a beneficiary under section 652 or 662 shall be deemed
11 to have been received by the beneficiary ratably on the
12 same date that the dividends were received by the
13 estate or trust.”

14 (7) Section 702 (a) (5) is amended by striking out
15 “a credit under section 34,” and the comma after “sec-
16 tion 116”.

17 (8) Section 854 (a) is amended by striking out
18 “section 34 (a) (relating to credit for dividends re-
19 ceived by individuals),” and the comma after “section
20 116 (relating to an exclusion for dividends received by
21 individuals) ”.

1 (9) Section 854 (b) (1) is amended by striking out
2 “the credit under section 34 (a),” and the comma after
3 “section 116”.

4 (10) Section 854 (b) (2) is amended by striking
5 out “the credit under section 34,” and the comma after
6 “section 116”.

7 (11) Section 857 (c) is amended by striking out
8 “section 34 (a) (relating to credit for dividends received
9 by individuals),” and the comma after “section 116
10 (relating to an exclusion for dividends received by
11 individuals) ”.

12 (12) Section 871 (b) is amended by striking out
13 “the sum of the credits under sections 34 and 35” and
14 inserting in lieu thereof “the credit under section 35”.

15 (13) Section 1375 (b) is amended by striking out
16 “section 34,” and the comma after “section 37”.

17 (14) Section 6014 (a) is amended by striking out
18 “34 or”.

19 (e) EFFECTIVE DATES.—The amendments made by
20 subsection (a) shall apply with respect to taxable years end-
21 ing after December 31, 1963. The amendment made by sub-
22 section (b) shall apply with respect to taxable years ending
23 after December 31, 1964. The amendment made by sub-
24 section (c) shall apply with respect to taxable years begin-

1 ning after December 31, 1963. The amendments made
 2 by subsection (d) shall apply with respect to dividends
 3 received after December 31, 1964, in taxable years ending
 4 after such date.

5 **SEC. 202. REPEAL OF REQUIREMENT THAT BASIS OF SEC-**
 6 **TION 38 PROPERTY BE REDUCED BY 7 PER-**
 7 **CENT; OTHER PROVISIONS RELATING TO IN-**
 8 **VESTMENT CREDIT.**

9 (a) REPEAL OF REQUIREMENT THAT BASIS BE RE-
 10 DUCED.—

11 (1) IN GENERAL.—Subsection (g) of section 48
 12 (requireing that the basis of section 38 property be re-
 13 duced by 7 percent of the qualified investment) is here-
 14 by repealed.

15 (2) INCREASE IN BASIS OF PROPERTY PLACED IN
 16 SERVICE BEFORE JULY 1, 1963.—

17 (A) The basis of any section 38 property (as
 18 defined in section 48 (a) of the Internal Revenue
 19 Code of 1954) placed in service before July 1,
 20 1963, shall be increased, under regulations pre-
 21 scribed by the Secretary of the Treasury or his dele-
 22 gate, by an amount equal to 7 percent of the quali-
 23 fied investment with respect to such property un-
 24 der section 46 (c) of the Internal Revenue Code
 25 of 1954. If there has been any increase with respect

1 to such property under section 48 (g) (2) of such
2 Code, the increase under the preceding sentence
3 shall be appropriately reduced therefor.

4 (B) If a lessor made the election provided by
5 section 48 (d) of the Internal Revenue Code of 1954
6 with respect to property placed in service before
7 July 1, 1963—

8 (i) subparagraph (A) shall not apply
9 with respect to such property, but

10 (ii) under regulations prescribed by the
11 Secretary of the Treasury or his delegate, the
12 deductions otherwise allowable under section
13 162 of such Code to the lessee for amounts
14 paid to the lessor under the lease (or, if such
15 lessee has purchased such property, the basis
16 of such property) shall be adjusted in a manner
17 consistent with subparagraph (A).

18 (C) The adjustments under this paragraph
19 shall be made as of the first day of the taxpayer's
20 first taxable year which begins after June 30, 1963.

21 (3) CONFORMING AMENDMENTS.—

22 (A) The last sentence of section 48 (d) (re-
23 lating to certain leased property) is hereby repealed.

24 (B) Section 181 (relating to deduction for cer-

1 tain unused investment credit) is hereby repealed.

2 (C) Section 1016 (a) (19) (relating to adjust-
3 ments to basis) is amended to read as follows:

4 “(19) to the extent provided in section 48 (g) and
5 in section 202 (a) (2) of the Revenue Act of 1963, in
6 the case of property which is or has been section 38
7 property (as defined in section 48 (a)) ;”

8 (D) The table of sections for part VI of sub-
9 chapter B of chapter 1 is amended by striking out
10 the following:

 “Sec. 181. Deduction for certain unused investment credit.”

11 (4) EFFECTIVE DATE.—Paragraphs (1) and (3)
12 of this subsection shall apply—

13 (A) in the case of property placed in service
14 after June 30, 1963, with respect to taxable years
15 ending after such date, and

16 (B) in the case of property placed in service
17 before July 1, 1963, with respect to taxable years
18 beginning after June 30, 1963.

19 (b) BASIS OF CERTAIN LEASED PROPERTY TO
20 LESSEE.—Paragraphs (1) and (2) of section 48 (d) (relat-
21 ing to certain leased property) are amended to read as
22 follows:

23 “(1) except as provided in paragraph (2), the
24 fair market value of such property, or

“(2) if such property is leased by a corporation which is a member of an affiliated group (within the meaning of section 46 (a) (5)) to another corporation which is a member of the same affiliated group, the basis of such property to the lessor.”

(c) TREATMENT OF ELEVATORS AND ESCALATORS
FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48

(a) (1) (relating to section 38 property) is amended—

(1) by striking out the period at the end of subparagraph (B) and inserting in lieu thereof “, or”; and

(2) by adding after subparagraph (B) the following new subparagraph:

“(C) elevators and escalators, but only if—

“(i) the construction, reconstruction, or erection of the elevator or escalator is completed by the taxpayer after June 30, 1963, or

“(ii) the elevator or escalator is acquired after June 30, 1963, and the original use of such elevator or escalator commences with the taxpayer and commences after such date.”

(d) TREATMENT OF ELEVATORS AND ESCALATORS
FOR PURPOSES OF SECTION 1245.—Section 1245 (a) (relating to gain from dispositions of certain depreciable property) is amended—

(1) by striking out so much of paragraph (2) as

1 precedes the second sentence thereof and inserting in
2 lieu thereof the following:

3 “(2) RECOMPUTED BASIS.—For purposes of this
4 section, the term ‘recomputed basis’ means—

5 “(A) with respect to any property referred
6 to in paragraph (3) (A) or (B), its adjusted
7 basis recomputed by adding thereto all adjustments,
8 attributable to periods after December 31, 1961, or

9 “(B) with respect to any property referred to
10 in paragraph (3) (C), its adjusted basis recomputed
11 by adding thereto all adjustments, attributable to
12 periods after June 30, 1963,

13 reflected in such adjusted basis on account of deductions
14 (whether in respect of the same or other property)
15 allowed or allowable to the taxpayer or to any other
16 person for depreciation, or for amortization under section
17 168.”;

18 (2) by striking out the period at the end of para-
19 graph (3) (B) and inserting in lieu thereof “, or”;
20 and

21 (3) by adding at the end of paragraph (3) the
22 following new subparagraph:

23 “(C) an elevator or an escalator.”

1 (e) TREATMENT OF INVESTMENT CREDIT BY FED-
2 ERAL REGULATORY AGENCIES.—It was the intent of the
3 Congress in providing an investment credit under section 38
4 of the Internal Revenue Code of 1954, and it is the intent
5 of the Congress in repealing the reduction in basis required
6 by section 48 (g) of such Code, to provide an incentive for
7 modernization and growth of private industry (including that
8 portion thereof which is regulated). Accordingly, Congress
9 does not intend that any agency or instrumentality of the
10 United States having jurisdiction with respect to a taxpayer
11 shall, without the consent of the taxpayer, use—

12 (1) in the case of public utility property (as de-
13 fined in section 46 (c) (3) (B) of the Internal Revenue
14 Code of 1954), more than a proportionate part (deter-
15 mined with reference to the average useful life of the
16 property with respect to which the credit was allowed)
17 of the credit against tax allowed for any taxable year by
18 section 38 of such Code, or

19 (2) in the case of any other property, any credit
20 against tax allowed by section 38 of such Code,
21 to reduce such taxpayer's Federal income taxes for the pur-
22 pose of establishing the cost of service of the taxpayer or to
23 accomplish a similar result by any other method.

1 (f) **EFFECTIVE DATES.—**

2 (1) The amendments made by subsection (b) shall
3 apply with respect to property possession of which is
4 transferred to a lessee on or after the date of enactment
5 of this Act.

6 (2) The amendments made by subsection (c) shall
7 apply with respect to taxable years ending after June
8 30, 1963.

9 (3) The amendments made by subsection (d) shall
10 apply with respect to dispositions after December 31,
11 1963, in taxable years ending after such date.

12 **SEC. 203. GROUP-TERM LIFE INSURANCE PURCHASED FOR**
13 **EMPLOYEES.**

14 (a) **INCLUSION IN INCOME.—**

15 (1) Part II of subchapter B of chapter 1 (relating
16 to items specifically included in gross income) is
17 amended by adding at the end thereof the following new
18 section:

19 **“SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED**
20 **FOR EMPLOYEES.**

21 **“(a) GENERAL RULE.—**There shall be included in the
22 gross income of an employee for the taxable year an amount
23 equal to the cost of group-term life insurance on his life
24 provided for part or all of such year under a policy (or

1 policies) carried directly or indirectly by his employer (or
 2 employers) ; but only to the extent that such cost exceeds
 3 the sum of—

4 “(1) the cost of so much of such insurance as does
 5 not exceed \$30,000 of protection, and

6 “(2) the amount (if any) paid by the employee
 7 toward the purchase of such insurance.

8 “(b) EXCEPTIONS.—Subsection (a) shall not apply
 9 to—

10 “(1) the cost of group-term life insurance on the
 11 life of an individual which is provided under a policy
 12 carried directly or indirectly by an employer after such
 13 individual has terminated his employment with such
 14 employer and either has reached the retirement age with
 15 respect to such employer or is disabled (within the
 16 meaning of paragraph (3) of section 213 (g), deter-
 17 mined without regard to paragraph (4) thereof),

18 “(2) the cost of any portion of the group-term life
 19 insurance on the life of an employee provided during
 20 part or all of the taxable year of the employee under
 21 which—

22 “(A) the employer is directly or indirectly
 23 the beneficiary, or

1 “(B) a person described in section 170 (c) is
2 the sole beneficiary,

3 for the entire period during such taxable year for
4 which the employee receives such insurance, and

5 “(3) the cost of any group-term life insurance
6 which is provided under a contract to which section
7 72 (m) (3) applies.

8 “(c) DETERMINATION OF COST OF INSURANCE.—

9 “(1) UNIFORM PREMIUM TABLE METHOD.—For
10 purposes of this section and chapter 24, the cost of
11 group-term life insurance on the life of an employee
12 provided during any period shall be determined on the
13 basis of uniform premiums (computed on the basis of
14 5-year age brackets) prescribed by regulations by the
15 Secretary or his delegate.

16 “(2) POLICY COST METHOD.—If the employer so
17 elects (at such time and in such manner as the Secretary
18 or his delegate prescribes) with respect to any employee
19 for any period, the cost of group-term life insurance on
20 the life of such employee shall (in lieu of being deter-
21 mined under paragraph (1)) be determined on the basis
22 of the average premium cost under the policy for the
23 ages included within the age bracket which would be
24 applicable to such employee under paragraph (1) . The
25 preceding sentence shall not apply for purposes of deter-

1 mining the cost of insurance provided under a policy if
 2 the premium on such policy is not computed on the
 3 basis of the cost of such insurance at the ages (or at the
 4 age brackets applicable under paragraph (1)) of the
 5 individuals comprising the group.

6 “(3) EMPLOYED INDIVIDUALS OVER AGE 64.—In
 7 the case of an employee who has attained age 64, the
 8 cost determined under paragraph (1) or (2), as the
 9 case may be, shall not exceed the cost which would be
 10 determined under such paragraph with respect to such
 11 individual if he were age 63.”

12 (2) The table of sections for part II of subchapter
 13 B of chapter 1 is amended by adding at the end thereof
 14 the following:

“Sec. 79. Group-term life insurance purchased for em-
 ployees.”

15 (3) Section 7701 (a) (20) (defining employee)
 16 is amended by striking out “For the purpose of apply-
 17 ing the provisions of sections 104” and inserting in lieu
 18 thereof “For the purpose of applying the provisions of
 19 sections 79 and 218 with respect to group-term life
 20 insurance purchased for employees, for the purpose of
 21 applying the provisions of sections 104”.

22 (b) CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR

1 GROUP-TERM LIFE INSURANCE.—Part VII of subchapter
2 B of chapter 1 (relating to additional itemized deductions
3 for individuals) is amended by inserting after section 217
4 the following new section:

5 “SEC. 218. CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR
6 GROUP-TERM LIFE INSURANCE.

7 “In the case of an employee on whose life group-term
8 life insurance in excess of \$30,000 is provided for part or
9 all of the taxable year under a policy (or policies) carried
10 directly or indirectly by his employer (or employers), there
11 shall be allowed as a deduction for such taxable year an
12 amount equal to the excess (if any) of —

13 “(1) the amount paid by the employee toward
14 the purchase of such insurance in excess of \$30,000,
15 over

16 “(2) the cost (determined in the manner provided
17 by paragraph (1) of section 79 (c), without regard to
18 paragraph (3) thereof) of such insurance in excess of
19 \$30,000.

20 For purposes of this section, there shall not be taken into
21 account any insurance the cost of which is excepted from
22 the application of subsection (a) of section 79 by subsection
23 (b) thereof.”

1 (c) WITHHOLDING.—Section 3401 (a) (relating to
2 definition of wages) is amended by striking out the period
3 at the end of paragraph (13) and inserting in lieu thereof
4 “; or”, and by adding at the end thereof the following new
5 paragraph:

6 “(14) in the form of group-term life insurance on
7 the life of an employee, but only to the extent the cost
8 of such insurance is not includible in the employee’s
9 gross income under section 79 (a). For purposes of
10 this paragraph, the extent to which the cost of group-
11 term life insurance is includible in the employee’s gross
12 income under section 79 (a) shall be determined as if
13 the employer were the only employer paying such
14 employee remuneration in the form of such insurance;
15 or”.

16 (d) EFFECTIVE DATES.—The amendments made by
17 subsections (a) and (b) shall apply with respect to group-
18 term life insurance provided after December 31, 1963, in
19 taxable years ending after such date. The amendments made
20 by subsection (c) shall apply with respect to remuneration
21 paid after December 31, 1963, in the form of group-term
22 life insurance provided after such date.

1 **SEC. 204. INCLUSION IN GROSS INCOME OF REIMBURSED**
2 **MEDICAL EXPENSES TO THE EXTENT THAT**
3 **THE REIMBURSEMENT EXCEEDS THE EX-**
4 **PENSES.**

5 (a) **GENERAL RULE.**—Part II of subchapter B of chap-
6 ter 1 (relating to items specifically included in gross income)
7 is amended by adding at the end thereof the following new
8 section:

9 **“SEC. 80. REIMBURSEMENT OF MEDICAL EXPENSES IN**
10 **EXCESS OF SUCH EXPENSES.**

11 “Notwithstanding any other provision of this subchapter,
12 amounts received through accident or health insurance for
13 medical expenses shall be included in gross income to the
14 extent the aggregate of such amounts received for any per-
15 sonal injury or sickness exceeds the aggregate amount of the
16 medical expenses incurred by the taxpayer for such
17 personal injury or sickness. For purposes of this section,
18 the term ‘medical expenses’ means expenses for medical care
19 as defined in section 213 (e), except that it does not include
20 amounts paid for accident or health insurance.”

1 (b) CLERICAL AMENDMENT.—The table of sections for
 2 such part II is amended by adding at the end thereof the
 3 following:

“Sec. 80. Reimbursement of medical expenses in excess of
 such expenses.”

4 (c) TECHNICAL AMENDMENT.—Subsection (e) of sec-
 5 tion 105 (relating to the definition of accident and health
 6 plans) is amended by striking out “this section” and insert-
 7 ing in lieu thereof “this section, section 80,”.

8 (d) EFFECTIVE DATE.—The amendments made by this
 9 section shall apply to taxable years beginning after Decem-
 10 ber 31, 1963.

11 **SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUA-**
 12 **TION PLANS. .**

13 (a) WAGE CONTINUATION PLANS.—The second sen-
 14 tence of section 105 (d) (relating to wage continuation
 15 plans) is amended to read as follows: “The preceding sen-
 16 tence shall not apply to amounts attributable to the first 30
 17 calendar days in such period.”

18 (b) EFFECTIVE DATE.—The amendment made by sub-
 19 section (a) shall apply to amounts attributable to periods of
 20 absence commencing after December 31, 1963.

1 **SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON**
 2 **SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**

4 (a) **IN GENERAL.**—Part III of subchapter B of chapter
 5 1 (relating to items specifically excluded from gross income)
 6 is amended by redesignating section 121 as section 122 and
 7 by inserting before such section the following new section:

8 **“SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE**
 9 **OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**

10 “(a) **GENERAL RULE.**—At the election of the taxpayer,
 11 gross income does not include gain from the sale or exchange
 12 of property if—

13 “(1) the taxpayer has attained the age of 65 before
 14 the date of such sale or exchange, and

15 “(2) during the 8-year period ending on the date
 16 of the sale or exchange, such property has been owned
 17 and used by the taxpayer as his principal residence for
 18 periods aggregating 5 years or more.

19 “(b) **LIMITATIONS.**—

20 “(1) **WHERE ADJUSTED SALES PRICE EXCEEDS**
 21 **\$20,000.**—If the adjusted sales price of the property
 22 sold or exchanged exceeds \$20,000, subsection (a)
 23 shall apply to that portion of the gain which bears the
 24 same ratio to the total amount of such gain as \$20,000
 25 bears to such adjusted sales price. For purposes of the

preceding sentence, the term 'adjusted sales price' has the meaning assigned to such term by section 1034 (b) (1) (determined without regard to subsection (d) (7) of this section).

"(2) APPLICATION TO ONLY ONE SALE OR EXCHANGE.—Subsection (a) shall not apply to any sale or exchange by the taxpayer if an election by the taxpayer or his spouse under subsection (a) with respect to any other sale or exchange is in effect.

"(c) ELECTION.—An election under subsection (a) may be made or revoked at any time before the expiration of the period for making a claim for credit or refund of the tax imposed by this chapter for the taxable year in which the sale or exchange occurred, and shall be made or revoked in such manner as the Secretary or his delegate shall by regulations prescribe. In the case of a taxpayer who is married, an election under subsection (a) or a revocation thereof may be made only if his spouse joins in such election or revocation.

"(d) SPECIAL RULES.—

"(1) PROPERTY HELD JOINTLY BY HUSBAND AND WIFE.—For purposes of this section, if—

"(A) property is held by a husband and wife as joint tenants, tenants by the entirety, or community property,

1 “(B) such husband and wife make a joint re-
2 turn under section 6013 for the taxable year of the
3 sale or exchange, and

4 “(C) one spouse satisfies the age, holding, and
5 use requirements of subsection (a) with respect to
6 such property,

7 then both husband and wife shall be treated as satisfying
8 the age, holding, and use requirements of subsection (a)
9 with respect to such property.

10 “(2) PROPERTY OF DECEASED SPOUSE.—For pur-
11 poses of this section, in the case of an unmarried in-
12 dividual whose spouse is deceased on the date of the sale
13 or exchange of property, if—

14 “(A) the deceased spouse (during the 8-year
15 period ending on the date of the sale or exchange)
16 satisfied the holding and use requirements of sub-
17 section (a) (2) with respect to such property, and

18 “(B) no election by the deceased spouse under
19 subsection (a) is in effect with respect to a prior
20 sale or exchange,

21 then such individual shall be treated as satisfying the
22 holding and use requirements of subsection (a) (2) with
23 respect to such property.

24 “(3) TENANT-STOCKHOLDER IN COOPERATIVE
25 HOUSING CORPORATION.—For purposes of this section,

1 if the taxpayer holds stock as a tenant-stockholder (as
2 defined in section 216) in a cooperative housing corpora-
3 tion (as defined in such section), then—

4 “(A) the holding requirements of subsection
5 (a) (2) shall be applied to the holding of such
6 stock, and

7 “(B) the use requirements of subsection (a)
8 (2) shall be applied to the house or apartment
9 which the taxpayer was entitled to occupy as such
10 stockholder.

11 “(4) INVOLUNTARY CONVERSIONS.—For purposes
12 of this section, the destruction, theft, seizure, requisition,
13 or condemnation of property shall be treated as the sale
14 of such property.

15 “(5) PROPERTY USED IN PART AS PRINCIPAL RESI-
16 DENCE.—In the case of property only a portion of which,
17 during the 8-year period ending on the date of the sale
18 or exchange, has been owned and used by the taxpayer
19 as his principal residence for periods aggregating 5 years
20 or more, this section shall apply with respect to so much
21 of the gain from the sale or exchange of such property
22 as is determined, under regulations prescribed by the
23 Secretary or his delegate, to be attributable to the por-
24 tion of the property so owned and used by the taxpayer.

1 “(6) DETERMINATION OF MARITAL STATUS.—In
2 the case of any sale or exchange, for purposes of this
3 section—

4 “(A) the determination of whether an indi-
5 vidual is married shall be made as of the date of
6 the sale or exchange; and

7 “(B) an individual legally separated from his
8 spouse under a decree of divorce or of separate
9 maintenance shall not be considered as married.

10 “(7) APPLICATION OF SECTIONS 1033 AND
11 1034.—In applying sections 1033 (relating to involun-
12 tary conversions) and 1034 (relating to sale or exchange
13 of residence), the amount realized from the sale or ex-
14 change of property shall be treated as being the amount
15 determined without regard to this section, reduced by the
16 amount of gain not included in gross income pursuant
17 to an election under this section.”

18 (b) TECHNICAL AND CLERICAL AMENDMENTS.—

19 (1) Section 6012 (c) (relating to persons required
20 to make returns of income) is amended to read as
21 follows:

22 “(c) CERTAIN INCOME EARNED ABROAD OR FROM
23 SALE OF RESIDENCE.—For purposes of this section, gross
24 income shall be computed without regard to the exclusion

1 provided for in section 121 (relating to sale of residence by
 2 individual who has attained age 65) and without regard to
 3 the exclusion provided for in section 911 (relating to earned
 4 income from sources without the United States)."

5 (2) The table of sections for part III of subchapter
 6 B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

7 and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of indi-
 vidual who has attained age 65.

"Sec. 122. Cross references to other Acts."

8 (3) Section 1033 (h) (relating to involuntary con-
 9 versions) is amended by adding at the end thereof the
 10 following new paragraph:

"(3) For exclusion from gross income of certain gain
 from involuntary conversion of residence of taxpayer
 who has attained age 65, see section 121."

11 (4) Section 1034 (relating to sale or exchange of
 12 residence) is amended by adding at the end thereof the
 13 following new subsection:

14 "(k) CROSS REFERENCE.—

"For exclusion from gross income of certain gain
 from sale or exchange of residence of taxpayer who has
 attained age 65, see section 121."

15 (c) EFFECTIVE DATE.—The amendments made by this
 16 section shall apply to dispositions after December 31, 1963,
 17 in taxable years ending after such date.

1 SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE,
2 LOCAL, AND FOREIGN TAXES.

3 (a) IN GENERAL.—Subsections (a), (b), and (c) of
4 section 164 (relating to deduction for taxes) are amended to
5 read as follows:

6 “(a) GENERAL RULE.—Except as otherwise provided
7 in this section, the following taxes shall be allowed as a de-
8 duction for the taxable year within which paid or accrued:

9 “(1) State and local, and foreign, real property
10 taxes.

11 “(2) State and local personal property taxes.

12 “(3) State and local, and foreign, income, war
13 profits, and excess profits taxes.

14 “(4) State and local general sales taxes.

15 In addition, there shall be allowed as a deduction State and
16 local, and foreign, taxes not described in the preceding sen-
17 tence which are paid or accrued within the taxable year in
18 carrying on a trade or business or an activity described in
19 section 212 (relating to expenses for production of income).

20 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-
21 poses of this section—

22 “(1) PERSONAL PROPERTY TAXES.—The term
23 ‘personal property tax’ means an ad valorem tax which
24 is imposed on an annual basis in respect of personal
25 property.

1 “(2) GENERAL SALES TAXES.—

2 “(A) IN GENERAL.—The term ‘general sales
3 tax’ means a tax imposed at one rate in respect of
4 the sale at retail of a broad range of classes of items.

5 “(B) SPECIAL RULES FOR FOOD, ETC.—In the
6 case of items of food, clothing, medical supplies, and
7 motor vehicles—

8 “(i) the fact that the tax does not apply
9 in respect of some or all of such items shall not
10 be taken into account in determining whether
11 the tax applies in respect of a broad range of
12 classes of items, and

13 “(ii) the fact that the rate of tax ap-
14 plicable in respect of some or all of such items
15 is lower than the general rate of tax shall not
16 be taken into account in determining whether
17 the tax is imposed at one rate.

18 “(C) ITEMS TAXED AT DIFFERENT RATES.—
19 Except in the case of a lower rate of tax applicable
20 in respect of an item described in subparagraph (B),
21 no deduction shall be allowed under this section for
22 any general sales tax imposed in respect of an item
23 at a rate other than the general rate of tax.

24 “(D) COMPENSATING USE TAXES.—A com-
25 pensating use tax in respect of an item shall be

1 treated as a general sales tax. For purposes of the
2 preceding sentence, the term 'compensating use tax'
3 means, in respect of any item, a tax which—

4 “(i) is imposed on the use, storage, or
5 consumption of such item, and

6 “(ii) is complementary to a general sales
7 tax, but only if a deduction is allowable under
8 subsection (a) (4) in respect of items sold at
9 retail in the taxing jurisdiction which are similar
10 to such item.

11 “(E) SEPARATELY STATED GENERAL SALES
12 TAXES.—If the amount of any general sales tax is
13 separately stated, then, to the extent that the
14 amount so stated is paid by the consumer (other-
15 wise than in connection with the consumer's trade
16 or business) to his seller, such amount shall be
17 treated as a tax imposed on, and paid by, such
18 consumer.

19 “(3) STATE OR LOCAL TAXES.—A State or local
20 tax includes only a tax imposed by a State, a possession

1 of the United States, or a political subdivision of any of
2 the foregoing, or by the District of Columbia.

3 “(4) FOREIGN TAXES.—A foreign tax includes only
4 a tax imposed by the authority of a foreign country.

5 “(c) DEDUCTION DENIED IN CASE OF CERTAIN
6 TAXES.—No deduction shall be allowed for the following
7 taxes:

8 “(1) Taxes assessed against local benefits of a kind
9 tending to increase the value of the property assessed;
10 but this paragraph shall not prevent the deduction of so
11 much of such taxes as is properly allocable to mainte-
12 nance or interest charges.

13 “(2) Taxes on real property, to the extent that
14 subsection (d) requires such taxes to be treated as
15 imposed on another taxpayer.”

16 (b) TECHNICAL AMENDMENTS.—

17 (1) The first sentence of section 164 (f) (relating
18 to payments for municipal services in atomic energy
19 communities) is amended by inserting “State” before
20 “real property taxes”.

1 (2) Section 164 (g) (relating to cross references)
2 is amended to read as follows:

3 “(g) CROSS REFERENCES.—

 “(1) For provisions disallowing any deduction for the payment of the tax imposed by subchapter B of chapter 3 (relating to tax-free covenant bonds), see section 1451.

 “(2) For provisions disallowing any deduction for certain taxes, see section 275.”

4 (3) (A) Part IX of subchapter B of chapter 1
5 (relating to items not deductible) is amended by adding
6 at the end thereof the following new section:

7 “SEC. 275. CERTAIN TAXES.

8 “(a) GENERAL RULE.—No deduction shall be allowed
9 for the following taxes:

10 “(1) Federal income taxes, including—

11 “(A) the tax imposed by section 3101 (re-
12 lating to the tax on employees under the Federal
13 Insurance Contributions Act) ;

14 “(B) the taxes imposed by sections 3201 and
15 3211 (relating to the taxes on railroad employees
16 and railroad employee representatives) ; and

17 “(C) the tax withheld at source on wages
18 under section 3402, and corresponding provisions of
19 prior revenue laws.

20 “(2) Federal war profits and excess profits taxes.

21 “(3) Estate, inheritance, legacy, succession, and
22 gift taxes.

1 “(4) Income, war profits, and excess profits taxes
2 imposed by the authority of any foreign country or pos-
3 session of the United States, if the taxpayer chooses to
4 take to any extent the benefits of section 901 (relating
5 to the foreign tax credit).

6 “(5) Taxes on real property, to the extent that sec-
7 tion 164 (d) requires such taxes to be treated as imposed
8 on another taxpayer.

9 “(b) CROSS REFERENCE.—

 “**For disallowance of certain other taxes, see section
164(c).**”

10 (B) The table of sections for such part IX is
11 amended by adding at the end thereof the following:

 “Sec. 275. Certain taxes.”

12 (4) Paragraph (1) of section 535 (b) (relating to
13 adjustments to accumulated taxable income) is amended
14 by striking out “section 164 (b) (6)” and inserting in
15 lieu thereof “section 275 (a) (4)”.

16 (5) The first sentence of paragraph (1) of section
17 545 (b) (relating to adjustments to personal holding
18 company taxable income) is amended by striking out
19 “section 164 (b) (6)” and inserting in lieu thereof
20 “section 275 (a) (4)”.

21 (6) The first sentence of paragraph (1) of section
22 556 (b) (relating to adjustments to foreign personal
23 holding company taxable income) is amended by strik-

1 ing out “section 164 (b) (6)” and inserting in lieu
2 thereof “section 275 (a) (4)”.

3 (7) Paragraph (1) of section 901 (d) (relating
4 to credit for taxes imposed by foreign countries) is
5 amended by striking out “section 164” and inserting
6 in lieu thereof “sections 164 and 275”.

7 (8) Section 903 (relating to credit for taxes
8 imposed by a foreign country in lieu of income, etc.,
9 taxes) is amended by striking out “section 164 (b)”
10 and inserting in lieu thereof “sections 164 (a) and 275
11 (a)”.

12 (c) **EFFECTIVE DATE.**—The amendments made by this
13 section shall apply to taxable years beginning after Decem-
14 ber 31, 1963.

15 **SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.**

16 (a) **LIMITATION ON AMOUNT OF CASUALTY OR**
17 **THEFT LOSS DEDUCTION.**—Section 165 (c) (3) (relating
18 to losses of property not connected with trade or business)
19 is amended to read as follows:

20 “(3) losses of property not connected with a trade
21 or business, if such losses arise from fire, storm, ship-
22 wreck, or other casualty, or from theft. A loss de-
23 scribed in this paragraph shall be allowed only to the
24 extent that the amount of loss to such individual arising
25 from each casualty, or from each theft, exceeds \$100.

1 For purposes of the \$100 limitation of the preceding
 2 sentence, a husband and wife making a joint return
 3 under section 6013 for the taxable year in which the
 4 loss is allowed as a deduction shall be treated as one
 5 individual. No loss described in this paragraph shall
 6 be allowed if, at the time of filing the return, such
 7 loss has been claimed for estate tax purposes in the
 8 estate tax return."

9 (b) EFFECTIVE DATE.—The amendment made by sub-
 10 section (a) shall apply to losses sustained after December
 11 31, 1963, in taxable years ending after such date.

12 **SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.**

13 (a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL
 14 10-PERCENT CHARITABLE LIMITATION.—Section 170 (b)
 15 (1) (A) (relating to limitation on amount of deduction for
 16 charitable contributions by individuals) is amended by strik-
 17 ing out "or" at the end of clause (iii), and by inserting after
 18 clause (iv) the following new clauses:

19 " (v) a governmental unit referred to in
 20 subsection (c) (1), or

21 " (vi) an organization referred to in sub-
 22 section (c) (2) which normally receives a sub-
 23 stantial part of its support (exclusive of income
 24 received in the exercise or performance by such
 25 organization of its charitable, educational, or

1 other purpose or function constituting the basis
 2 for its exemption under section 501 (a)) from a
 3 governmental unit referred to in subsection (c)
 4 (1) or from direct or indirect contributions from
 5 the general public,”.

6 (b) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
 7 CONTRIBUTIONS MADE BY CORPORATIONS.—

8 (1) IN GENERAL.—Section 170 (b) (2) (relating
 9 to limitation on amount of deduction for charitable con-
 10 tributions by corporations) is amended by striking out
 11 the sentence following subparagraph (D) and inserting
 12 in lieu thereof the following:

13 “Any contribution made by a corporation in a taxable
 14 year (hereinafter in this sentence referred to as the
 15 ‘contribution year’) in excess of the amount deductible
 16 for such year under the preceding sentence shall be
 17 deductible for each of the 5 succeeding taxable years
 18 in order of time, but only to the extent of the lesser of
 19 the two following amounts: (i) the excess of the maxi-
 20 mum amount deductible for such succeeding taxable year
 21 under the preceding sentence over the sum of the con-
 22 tributions made in such year plus the aggregate of the
 23 excess contributions which were made in taxable years
 24 before the contribution year and which are deductible un-
 25 der this sentence for such succeeding taxable year; or
 26 (ii) in the case of the first succeeding taxable year, the

1 amount of such excess contribution, and in the case of
2 the second, third, fourth, or fifth succeeding taxable
3 years, the portion of such excess contribution not de-
4 ductible under this sentence for any taxable year inter-
5 vening between the contribution year and such succeed-
6 ing taxable year.”

7 (2) CARRYOVERS IN CERTAIN CORPORATE ACQUI-
8 SITIONS.—Paragraph (19) of section 381 (c) (relating
9 to items of distributor or transferor corporation) is
10 amended to read as follows:

11 “(19) CHARITABLE CONTRIBUTIONS IN EXCESS
12 OF PRIOR YEARS’ LIMITATIONS.—Contributions made
13 in the taxable year ending on the date of distribution or
14 transfer and the 4 prior taxable years by the distributor
15 or transferor corporation in excess of the amount de-
16 ductible under section 170 (b) (2) for such taxable
17 years shall be deductible by the acquiring corporation
18 for its taxable years which begin after the date of dis-
19 tribution or transfer, subject to the limitations imposed
20 in section 170 (b) (2). In applying the preceding
21 sentence, each taxable year of the distributor or trans-
22 feror corporation beginning on or before the date of
23 distribution or transfer shall be treated as a prior taxable
24 year with reference to the acquiring corporation’s tax-
25 able years beginning after such date.”

26 (c) FUTURE INTERESTS IN TANGIBLE PERSONAL

1 PROPERTY.—Section 170 (relating to charitable, etc., con-
 2 tributions and gifts) is amended by redesignating subsections
 3 (f) and (g) as subsections (g) and (h), respectively, and
 4 by inserting after subsection (e) the following new sub-
 5 section:

6 “(f) FUTURE INTERESTS IN TANGIBLE PERSONAL
 7 PROPERTY.—For purposes of this section, payment of a
 8 charitable contribution which consists of a future interest in
 9 tangible personal property shall be treated as made only
 10 when all intervening interests in, and rights to the actual
 11 possession or enjoyment of, the property have expired or are
 12 held by persons other than the taxpayer or those standing
 13 in a relationship to the taxpayer described in section 267
 14 (b). For purposes of the preceding sentence, a fixture
 15 which is intended to be severed from the real property shall
 16 be treated as tangible personal property. This subsection
 17 shall not apply to any charitable contribution where—

18 “(1) the sole intervening interest or right is a non-
 19 transferable life interest reserved by the donor, or

20 “(2) in the case of a joint gift by husband and
 21 wife, the sole intervening interest or right is a non-
 22 transferable life interest reserved by the donors which
 23 expires not later than the death of whichever of such
 24 donors dies later.

25 For purposes of the preceding sentence, a right to make an
 26 earlier transfer of the reserved life interest to the donee of

1 the future interest shall not be treated as making a life inter-
2 est transferable.”

3 (d) EFFECTIVE DATES.—The amendments made by
4 subsections (a) and (b) shall apply with respect to con-
5 tributions which are paid (or treated as paid under section
6 170 (a) (2) of the Internal Revenue Code of 1954) in tax-
7 able years beginning after December 31, 1963. The amend-
8 ments made by subsection (c) shall apply to transfers of
9 future interests made after December 31, 1963, in taxable
10 years ending after such date.

11 **SEC. 210. ONE-PERCENT LIMITATION ON MEDICINE AND**
12 **DRUGS.**

13 (a) GENERAL RULE.—Subsection (b) of section 213
14 (relating to medical, dental, etc., expenses) is amended by
15 adding at the end thereof the following new sentence: “The
16 preceding sentence shall not apply to amounts paid for the
17 care of—

18 “(1) the taxpayer and his spouse, if either of them
19 has attained the age of 65 before the close of the taxa-
20 ble year, or

21 “(2) any dependent described in subsection (a)
22 (1) (A).”

23 (b) EFFECTIVE DATE.—The amendment made by sub-
24 section (a) shall apply to taxable years beginning after
25 December 31, 1963.

1 **SEC. 211. CARE OF DEPENDENTS.**

2 (a) **CHILD CARE ALLOWANCE.**—Section 214 (relating
3 to expenses for care of certain dependents) is amended to
4 read as follows:

5 **“SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.**

6 “(a) **GENERAL RULE.**—There shall be allowed as a
7 deduction expenses paid during the taxable year by a tax-
8 payer who is a woman or widower, or is a husband whose
9 wife is incapacitated or is institutionalized, for the care of one
10 or more dependents (as defined in subsection (d) (1)), but
11 only if such care is for the purpose of enabling the taxpayer
12 to be gainfully employed.

13 “(b) **LIMITATIONS.**—

14 “(1) **DOLLAR LIMIT.**—

15 “(A) Except as provided in subparagraph
16 (B), the deduction under subsection (a) shall not
17 exceed \$600 for any taxable year.

18 “(B) The \$600 limit of subparagraph (A)
19 shall be increased (to an amount not above \$900)
20 by the amount of expenses incurred by the taxpayer
21 for any period during which—

22 “(i) the taxpayer had 2 or more depend-
23 ents, and

24 “(ii) paragraph (2) does not apply.

25 “(2) **WORKING WIVES.**—In the case of a woman

1 who is married, the deduction under subsection (a) —

2 “(A) shall not be allowed unless she files a
3 joint return with her husband for the taxable year,
4 and

5 “(B) shall be reduced by the amount (if any)
6 by which the adjusted gross income of the taxpayer
7 and her spouse exceeds \$4,500.

8 This paragraph shall not apply to expenses incurred
9 while the taxpayer’s husband is incapable of self-support
10 because mentally or physically defective.

11 “(3) HUSBANDS WITH INCAPACITATED WIVES.—

12 In the case of a husband whose wife is incapacitated,
13 the deduction under subsection (a) —

14 “(A) shall not be allowed unless he files a
15 joint return with his wife for the taxable year, and

16 “(B) shall be reduced by the amount (if any)
17 by which the adjusted gross income of the taxpayer
18 and his spouse exceeds \$4,500.

19 This paragraph shall not apply to expenses incurred
20 while the taxpayer’s wife is institutionalized if such in-
21 stitutionalization is for a period of at least 90 consecutive
22 days (whether or not within one taxable year) or a
23 shorter period if terminated by her death.

24 “(4) CERTAIN PAYMENTS NOT TAKEN INTO

1 **ACCOUNT.**—Subsection (a) shall not apply to any
 2 amount paid to an individual with respect to whom the
 3 taxpayer is allowed for his taxable year a deduction un-
 4 der section 151 (relating to deductions for personal
 5 exemptions).

6 “(c) **SPECIAL RULE WHERE WIFE IS INCAPACI-**
 7 **TATED OR INSTITUTIONALIZED.**—In the case of a husband
 8 whose wife is incapacitated or is institutionalized, the deduc-
 9 tion under subsection (a) shall be allowed only for expenses
 10 incurred while the wife was incapacitated or institutionalized
 11 (as the case may be) for a period of at least 90 consecutive
 12 days (whether or not within one taxable year) or a shorter
 13 period if terminated by her death.

14 “(d) **DEFINITIONS.**—For purposes of this section—

15 “(1) **DEPENDENT.**—The term ‘dependent’ means a
 16 person with respect to whom the taxpayer is entitled to
 17 an exemption under section 151 (e) (1) —

18 “(A) who has not attained the age of 13 years
 19 and who (within the meaning of section 152) is a
 20 son, stepson, daughter, or stepdaughter of the tax-
 21 payer; or

22 “(B) who is physically or mentally incapable
 23 of caring for himself.

24 “(2) **WIDOWER.**—The term ‘widower’ includes an
 25 unmarried individual who is legally separated from his

1 spouse under a decree of divorce or of separate mainte-
 2 nance.

3 “(3) INCAPACITATED WIFE.—A wife shall be con-
 4 sidered incapacitated only (A) while she is incapable of
 5 caring for herself because mentally or physically defec-
 6 tive, or (B) while she is institutionalized.

7 “(4) INSTITUTIONALIZED WIFE.—A wife shall be
 8 considered institutionalized only while she is, for the
 9 purpose of receiving medical care or treatment, an
 10 inpatient, resident, or inmate of a public or private hos-
 11 pital, sanitarium, or other similar institution.

12 “(5) DETERMINATION OF STATUS.—A woman
 13 shall not be considered as married if—

14 “(A) she is legally separated from her spouse
 15 under a decree of divorce or of separate maintenance
 16 at the close of the taxable year, or

17 “(B) she has been deserted by her spouse, does
 18 not know his whereabouts (and has not known his
 19 whereabouts at any time during the taxable year),
 20 and has applied to a court of competent jurisdiction
 21 for appropriate process to compel him to pay support
 22 or otherwise to comply with the law or a judicial
 23 order, as determined under regulations prescribed by
 24 the Secretary or his delegate.”

1 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 2 section (a) shall apply to taxable years beginning after
 3 December 31, 1963.

4 **SEC. 212. MOVING EXPENSES.**

5 (a) **DEDUCTION ALLOWED FOR MOVING EXPENSES.**—

6 (1) Part VII of subchapter B of chapter 1 (relat-
 7 ing to additional itemized deductions for individuals) is
 8 amended by redesignating section 217 as section 219 and
 9 by inserting after section 216 the following new section:

10 **“SEC. 217. MOVING EXPENSES.**

11 “(a) **DEDUCTION ALLOWED.**—There shall be allowed
 12 as a deduction moving expenses paid or incurred during the
 13 taxable year in connection with the commencement of work
 14 by the taxpayer as an employee at a new principal place of
 15 work.

16 “(b) **DEFINITION OF MOVING EXPENSES.**—

17 “(1) **IN GENERAL.**—For purposes of this section,
 18 the term ‘moving expenses’ means only the reasonable
 19 expenses—

20 “(A) of moving household goods and personal
 21 effects from the former residence to the new resi-
 22 dence, and

23 “(B) of traveling (including meals and lodg-

ing) from the former residence to the new place of residence.

“(2) INDIVIDUALS OTHER THAN TAXPAYER.—In the case of any individual other than the taxpayer, expenses referred to in paragraph (1) shall be taken into account only if such individual has both the former residence and the new residence as his principal place of abode and is a member of the taxpayer’s household.

“(c) CONDITIONS FOR ALLOWANCE.—No deduction shall be allowed under this section unless—

“(1) the taxpayer’s new principal place of work—

“(A) is at least 20 miles farther from his former residence than was his former principal place of work, or

“(B) if he had no former principal place of work, is at least 20 miles from his former residence, and

“(2) during the 12-month period immediately following his arrival in the general location of his new principal place of work, the taxpayer is a full-time employee, in such general location, during at least 39 weeks.

1 “(d) RULES FOR APPLICATION OF SUBSECTION
2 (c) (2).—

3 “(1) Subsection (c) (2) shall not apply to any
4 item to the extent that the taxpayer receives reim-
5 bursement or other expense allowance from his employer
6 for such item.

7 “(2) If a taxpayer has not satisfied the condition
8 of subsection (c) (2) before the time prescribed by law
9 (including extensions thereof) for filing the return for
10 the taxable year during which he paid or incurred mov-
11 ing expenses which would otherwise be deductible under
12 this section, but may still satisfy such condition, then
13 such expenses may (at the election of the taxpayer) be
14 deducted for such taxable year notwithstanding subsec-
15 tion (c) (2).

16 “(3) If—

17 “(A) for any taxable year moving expenses
18 have been deducted in accordance with the rule
19 provided in paragraph (2), and

20 “(B) the condition of subsection (c) (2) is
21 not satisfied by the close of the subsequent taxable
22 year,

23 then an amount equal to the expenses which were so

1 deducted shall be included in gross income for such sub-
2 sequent taxable year.

3 “(e) DISALLOWANCE OF DEDUCTION WITH RESPECT
4 TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—

5 No deduction shall be allowed under this section for any item
6 to the extent that the taxpayer receives reimbursement or
7 other expense allowance for such item which is not in-
8 cluded in his gross income.

9 “(f) REGULATIONS.—The Secretary or his delegate
10 shall prescribe such regulations as may be necessary to carry
11 out the purposes of this section.”

12 (2) The table of sections for part VII of subchapter
13 B of chapter 1 is amended by striking out—

“Sec. 217. Cross references.”

14 and inserting in lieu thereof the following:

“Sec. 217. Moving expenses.

“Sec. 218. Certain contributions by employees for group-
term life insurance.

“Sec. 219. Cross references.”

15 (b) ADJUSTED GROSS INCOME.—Section 62 (defining
16 adjusted gross income) is amended by inserting after para-
17 graph (7) the following new paragraph:

18 “(8) MOVING EXPENSE DEDUCTION.—The deduc-
19 tion allowed by section 217.”

1 (c)] WITHHOLDING.—Section 3401 (a) (relating to
2 definition of “wages”) is amended by adding after paragraph
3 (14) (added by section 203 (c) of this Act) the following
4 new paragraph:

5 “(15) to or on behalf of an employee if (and to the
6 extent that) at the time of the payment of such remuner-
7 ation it is reasonable to believe that a corresponding
8 deduction is allowable under section 217.”

9 (d) EFFECTIVE DATES.—The amendments made by
10 subsections (a) and (b) shall apply to expenses incurred
11 after December 31, 1963, in taxable years ending after such
12 date. The amendment made by subsection (c) shall apply
13 with respect to remuneration paid after December 31, 1963.

14 **SEC. 213. INTEREST ON LOANS INCURRED TO PURCHASE**
15 **CERTAIN INSURANCE AND ANNUITY CON-**
16 **TRACTS.**

17 (a) DISALLOWANCE OF INTEREST DEDUCTION.—
18 Section 264 (a) (relating to certain amounts paid in connec-
19 tion with insurance contracts) is amended—

20 (1) by inserting after paragraph (2) the follow-
21 ing new paragraph:

22 “(3) Except as provided in subsection (c), any
23 amount paid or accrued on indebtedness incurred or
24 continued to purchase or carry a life insurance, endow-
25 ment, or annuity contract (other than a single premium

1 contract or a contract treated as a single premium con-
 2 tract) pursuant to a plan of purchase which contem-
 3 plates the systematic direct or indirect borrowing of
 4 part or all of the increases in the cash value of such
 5 contract (either from the insurer or otherwise)."

6 (2) by adding at the end thereof the following
 7 new sentence: "Paragraph (3) shall apply only in
 8 respect of contracts purchased after August 6, 1963."

9 (b) EXCEPTIONS.—Section 264 is amended by adding
 10 at the end thereof the following new subsection:

11 "(c) EXCEPTIONS.—Subsection (a) (3) shall not ap-
 12 ply to any amount paid or accrued by a person during a
 13 taxable year on indebtedness incurred or continued as part
 14 of a plan referred to in subsection (a) (3) —

15 "(1) if no part of 4 of the annual premiums due
 16 during the 7-year period (beginning with the date the
 17 first premium on the contract to which such plan relates
 18 was paid) is paid under such plan by means of indebted-
 19 ness,

20 "(2) if the total of the amounts paid or accrued by
 21 such person during such taxable year for which (with-
 22 out regard to this paragraph) no deduction would be
 23 allowable by reason of subsection (a) (3) does not
 24 exceed \$100,

25 "(3) if such amount was paid or accrued on in-

1 debtedness incurred because of an unforeseen substantial
 2 loss of income or unforeseen substantial increase in his
 3 financial obligations, or

4 “(4) if such indebtedness was incurred in con-
 5 nection with his trade or business.

6 For purposes of applying paragraph (1), if there is a sub-
 7 stantial increase in the premiums on a contract, a new 7-
 8 year period described in such paragraph with respect to such
 9 contract shall commence on the date the first such increased
 10 premium is paid.”

11 (c) **EFFECTIVE DATE.**—The amendments made by this
 12 section shall apply with respect to amounts paid or accrued
 13 in taxable years beginning after December 31, 1963.

14 **SEC. 214. EMPLOYEE STOCK OPTIONS AND PURCHASE**
 15 **PLANS.**

16 (a) **IN GENERAL.**—Part II of subchapter D of chapter
 17 1 is amended to read as follows:

18 **“PART II—CERTAIN STOCK OPTIONS**

 “Sec. 421. General rules.

 “Sec. 422. Qualified stock options.

 “Sec. 423. Employee stock purchase plans.

 “Sec. 424. Restricted stock options.

 “Sec. 425. Definitions and special rules.

1 "SEC. 421. GENERAL RULES.

2 " (a) EFFECT OF QUALIFYING TRANSFER.—If a share
3 of stock is transferred to an individual in a transfer in
4 respect of which the requirements of section 422 (a),
5 423 (a), or 424 (a) are met—

6 " (1) except as provided in section 422 (c) (1),
7 no income shall result at the time of the transfer of
8 such share to the individual upon his exercise of the
9 option with respect to such share;

10 " (2) no deduction under section 162 (relating
11 to trade or business expenses) shall be allowable at
12 any time to the employer corporation, a parent or
13 subsidiary corporation of such corporation, or a corpora-
14 tion issuing or assuming a stock option in a transaction
15 to which section 425 (a) applies, with respect to the
16 share so transferred; and

17 " (3) no amount other than the price paid under
18 the option shall be considered as received by any of
19 such corporations for the share so transferred.

20 " (b) EFFECT OF DISQUALIFYING DISPOSITION.—If

1 the transfer of a share of stock to an individual pursuant to
 2 his exercise of an option would otherwise meet the require-
 3 ments of section 422 (a), 423 (a), or 424 (a) except that
 4 there is a failure to meet any of the holding period require-
 5 ments of section 422 (a) (1), 423 (a) (1), or 424 (a) (1),
 6 then any increase in the income of such individual or deduc-
 7 tion from the income of his employer corporation for the
 8 taxable year in which such exercise occurred attributable to
 9 such disposition, shall be treated as an increase in income or
 10 a deduction from income in the taxable year of such in-
 11 dividual or of such employer corporation in which such dis-
 12 position occurred.

13 “(c) EXERCISE BY ESTATE.—

14 “(1) IN GENERAL.—If an option to which this part
 15 applies is exercised after the death of the employee by
 16 the estate of the decedent, or by a person who acquired
 17 the right to exercise such option by bequest or in-
 18 heritance or by reason of the death of the decedent,
 19 the provisions of subsection (a) shall apply to the same
 20 extent as if the option had been exercised by the dece-
 21 dent, except that—

22 “(A) the holding period and employment
 23 requirements of sections 422 (a), 423 (a), and 424
 24 (a) shall not apply, and

25 “(B) any transfer by the estate of stock ac-

1 quired shall be considered a disposition of such stock
2 for purposes of sections 423 (c) and 424 (c) (1) .

3 “(2) DEDUCTION FOR ESTATE TAX.—If an amount
4 is required to be included under section 422 (c) (1),
5 423 (c), or 424 (c) (1) in gross income of the estate
6 of the deceased employee or of a person described in
7 paragraph (1), there shall be allowed to the estate or
8 such person a deduction with respect to the estate tax
9 attributable to the inclusion in the taxable estate of
10 the deceased employee of the net value for estate tax
11 purposes of the option. For this purpose, the deduction
12 shall be determined under section 691 (c) as if the
13 option acquired from the deceased employee were an
14 item of gross income in respect of the decedent under
15 section 691 and as if the amount includible in gross
16 income under section 422 (c) (1), 423 (c), or 424 (c)
17 (1) were an amount included in gross income under
18 section 691 in respect of such item of gross income.

19 “(3) BASIS OF SHARES ACQUIRED.—In the case of
20 a share of stock acquired by the exercise of an option
21 to which paragraph (1) applies—

22 “(A) the basis of such share shall include
23 so much of the basis of the option as is attributable
24 to such share; except that the basis of such share
25 shall be reduced by the excess (if any) of (i) the

1 amount, which would have been includible in gross
2 income under section 422 (c) (1), 423 (c), or 424
3 (c) (1) if the employee had exercised the option
4 on the date of his death and had held the share
5 acquired pursuant to such exercise at the time
6 of his death, over (ii) the amount which is in-
7 cludible in gross income under such section; and
8 “(B) the last sentence of sections 422 (c) (1),
9 423 (c), and 424 (c) (1) shall apply only to the
10 extent that the amount includible in gross income
11 under such sections exceeds so much of the basis
12 of the option as is attributable to such share.

13 **“SEC. 422. QUALIFIED STOCK OPTIONS.**

14 “(a) IN GENERAL.—Subject to the provisions of sub-
15 section (c) (1), section 421 (a) shall apply with respect to
16 the transfer of a share of stock to an individual pursuant to his
17 exercise of a qualified stock option if—

18 “(1) no disposition of such share is made by such
19 individual within the 3-year period beginning on the day
20 after the day of the transfer of such share, and

21 “(2) at all times during the period beginning with
22 the date of the granting of the option and ending on
23 the day 3 months before the date of such exercise, such
24 individual was an employee of either the corporation

1 granting such option, a parent or subsidiary corporation
2 of such corporation, or a corporation or a parent or sub-
3 sidiary corporation of such corporation issuing or assum-
4 ing a stock option in a transaction to which section
5 425 (a) applies.

6 “(b) QUALIFIED STOCK OPTION.—For purposes of this
7 part, the term ‘qualified stock option’ means an option
8 granted to an individual after June 11, 1963 (other than
9 a restricted stock option granted pursuant to a contract
10 described in section 424 (c) (4) (A)), for any reason con-
11 nected with his employment by a corporation, if granted
12 by the employer corporation or its parent or subsidiary cor-
13 poration, to purchase stock of any of such corporations, but
14 only if—

15 “(1) the option is granted pursuant to a plan
16 which includes the aggregate number of shares which
17 may be issued under options, and the employees (or
18 class of employees) eligible to receive options, and
19 which is approved by the stockholders of the granting
20 corporation within 12 months before or after the date
21 such plan is adopted;

22 “(2) such option is granted within 10 years from
23 the date such plan is adopted, or the date such plan
24 is approved by the stockholders, whichever is earlier;

1 “(3) such option by its terms is not exercisable
2 after the expiration of 5 years from the date such
3 option is granted;

4 “(4) except as provided in subsection (c) (1),
5 the option price is not less than the fair market value
6 of the stock at the time such option is granted;

7 “(5) such option by its terms is not exercisable
8 while there is outstanding (within the meaning of sub-
9 section (c) (2)) any qualified stock option (or re-
10 stricted stock option) which was granted, before the
11 granting of such option, to such individual to purchase
12 stock in his employer corporation or in a corporation
13 which (at the time of the granting of such option) is a
14 parent or subsidiary corporation of the employer corpora-
15 tion, or in a predecessor corporation of any of such
16 corporations;

17 “(6) such option by its terms is not transferable
18 by such individual otherwise than by will or the laws
19 of descent and distribution, and is exercisable, during
20 his lifetime, only by him; and

21 “(7) such individual, immediately after such option
22 is granted, does not own stock possessing more than 5
23 percent of the total combined voting power or value of
24 all classes of stock of the employer corporation or of its
25 parent or subsidiary corporation; except that if the

1 equity capital of such corporation or corporations (de-
2 termined at the time the option is granted) is less than
3 \$2,000,000, then, for purposes of applying the limita-
4 tion of this paragraph, there shall be added to such
5 5 percent the percentage (not higher than 5 percent)
6 which bears the same ratio to 5 percent as the difference
7 between such equity capital and \$2,000,000 bears to
8 \$1,000,000.

9 “(c) SPECIAL RULES.—

10 “(1) EXERCISE OF OPTION WHEN PRICE IS LESS
11 THAN VALUE OF STOCK.—If a share of stock is trans-
12 ferred pursuant to the exercise by an individual of an
13 option which fails to qualify as a qualified stock option
14 under subsection (b) because there was a failure in an
15 attempt, made in good faith, to meet the requirement of
16 subsection (b) (4), the requirement of subsection (b)
17 (4) shall be considered to have been met, but there
18 shall be included as compensation (and not as gain upon
19 the sale or exchange of a capital asset) in his gross in-
20 come for the taxable year in which such option is ex-
21 ercised, an amount equal to the lesser of—

22 “(A) 150 percent of the difference between
23 the option price and the fair market value of the
24 share at the time the option was granted, or

1 “(B) the difference between the option price
2 and the fair market value of the share at the time
3 of such exercise.

4 The basis of the share acquired shall be increased by an
5 amount equal to the amount included in his gross income
6 under this paragraph in the taxable year in which the
7 exercise occurred.

8 “(2) CERTAIN OPTIONS TREATED AS OUTSTAND-
9 ING.—For purposes of subsection (b) (5) —

10 “(A) any restricted stock option which is not
11 terminated before January 1, 1965, and

12 “(B) any qualified stock option granted after
13 June 11, 1963,

14 shall be treated as outstanding until such option is exer-
15 cised in full or expires by reason of the lapse of time.
16 For purposes of the preceding sentence, a restricted stock
17 option granted before June 12, 1963, shall not be treated
18 as outstanding for any period before the first day on
19 which (under the terms of such option) it may be
20 exercised.

21 “(3) OPTIONS GRANTED TO CERTAIN SHARE-
22 HOLDERS.—For purposes of subsection (b) (7) —

23 “(A) the term ‘equity capital’ means—

24 “(i) in the case of one corporation, the
25 sum of its money and other property (in an

1 amount equal to the adjusted basis of such
2 property for determining gain), less the amount
3 of its indebtedness (other than indebtedness to
4 shareholders), and

5 “(ii) in the case of a group of corporations
6 consisting of a parent and its subsidiary cor-
7 porations, the sum of the equity capital of each
8 of such corporations adjusted, under regulations
9 prescribed by the Secretary or his delegate, to
10 eliminate the effect of intercorporate ownership
11 or transactions among such corporations;

12 “(B) the rules of section 425 (d) shall apply
13 in determining the stock ownership of the indi-
14 vidual; and

15 “(C) stock which the individual may purchase
16 under outstanding options shall be treated as stock
17 owned by such individual.

18 If an individual is granted an option which permits
19 him to purchase stock in excess of the limitation of
20 subsection (b) (7) (determined by applying the rules
21 of this paragraph), such option shall be treated as
22 meeting the requirement of subsection (b) (7) to the
23 extent that such individual could, if the option were fully
24 exercised at the time of grant, purchase stock under
25 such option without exceeding such limitation. The

1 portion of such option which is treated as meeting the
2 requirement of subsection (b) (7) shall be deemed
3 to be that portion of the option which is first exercised.

4 “(4) CERTAIN DISQUALIFYING DISPOSITIONS
5 WHERE AMOUNT REALIZED IS LESS THAN VALUE AT
6 EXERCISE.—If—

7 “(A) an individual who has acquired a share
8 of stock by the exercise of a qualified stock option
9 makes a disposition of such share within the 3-year
10 period described in subsection (a) (1), and

11 “(B) such disposition is a sale or exchange
12 with respect to which a loss (if sustained) would
13 be recognized to such individual,

14 then the amount which is includible in the gross income
15 of such individual, and the amount which is deductible
16 from the income of his employer corporation, as com-
17 pensation attributable to the exercise of such option shall
18 not exceed the excess (if any) of the amount realized
19 on such sale or exchange over the amount paid for
20 such share.

21 “(5) CERTAIN TRANSFERS BY INSOLVENT INDIVIDUALS.—If an insolvent individual holds a share of
22 stock acquired pursuant to his exercise of a qualified
23 stock option, and if such share is transferred to a trustee,
24 receiver, or other similar fiduciary, in any proceeding
25

1 under the Bankruptcy Act or any other similar insol-
2 vency proceeding, neither such transfer, nor any other
3 transfer of such share for the benefit of his creditors
4 in such proceeding, shall constitute a 'disposition of
5 such share' for purposes of subsection (a) (1).

6 **"SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.**

7 "(a) GENERAL RULE.—Section 421 (a) shall apply
8 with respect to the transfer of a share of stock to an individ-
9 ual pursuant to his exercise of an option granted after June
10 11, 1963 (other than a restricted stock option granted pur-
11 suant to a plan described in section 424 (c) (4) (B)), under
12 an employee stock purchase plan (as defined in subsection
13 (b)) if—

14 "(1) no disposition of such share is made by him
15 within 2 years after the date of the granting of the
16 option nor within 6 months after the transfer of such
17 share to him; and

18 "(2) at all times during the period beginning with
19 the date of the granting of the option and ending on
20 the day 3 months before the date of such exercise, he
21 is an employee of the corporation granting such option,
22 a parent or subsidiary corporation of such corporation,
23 or a corporation or a parent or subsidiary corporation
24 of such corporation issuing or assuming a stock option
25 in a transaction to which section 425 (a) applies.

1 “(b) EMPLOYEE STOCK PURCHASE PLAN.—For pur-
2 poses of this part, the term ‘employee stock purchase plan’
3 means a plan which meets the following requirements:

4 “(1) the plan provides that options are to be
5 granted only to employees of the employer corporation
6 or of its parent or subsidiary corporation to purchase
7 stock in any such corporations;

8 “(2) such plan is approved by the stockholders
9 of the granting corporation within 12 months before or
10 after the date such plan is adopted;

11 “(3) under the terms of the plan, no employee can
12 be granted an option if such employee, immediately
13 after the option is granted, owns stock possessing 5 per-
14 cent or more of the total combined voting power or value
15 of all classes of stock of the employer corporation or of
16 its parent or subsidiary corporation. For purposes of
17 this paragraph, the rules of section 425 (d) shall apply
18 in determining the stock ownership of an individual, and
19 stock which the employee may purchase under outstand-
20 ing options shall be treated as stock owned by the em-
21 ployee;

22 “(4) under the terms of the plan, options are to be
23 granted to all employees of any corporation whose em-
24 ployees are granted any of such options by reason of

1 their employment by such corporation, except that there
2 may be excluded—

3 “(A) employees who have been employed less
4 than 2 years,

5 “(B) employees whose customary employment
6 is 20 hours or less per week,

7 “(C) employees whose customary employment
8 is for not more than 5 months in any calendar year,
9 and

10 “(D) officers, persons whose principal duties
11 consist of supervising the work of other employees,
12 or highly compensated employees;

13 “(5) under the terms of the plan, all employees
14 granted such options shall have the same rights and
15 privileges, except that the amount of stock which may
16 be purchased by any employee under such option may
17 bear a uniform relationship to the total compensation,
18 or the basic or regular rate of compensation, of em-
19 ployees, and the plan may provide that no employee
20 may purchase more than a maximum amount of stock
21 fixed under the plan;

22 “(6) under the terms of the plan, the option price
23 is not less than the lesser of—

24 “(A) an amount equal to 85 percent of the

1 fair market value of the stock at the time such option
2 is granted, or

3 “(B) an amount which under the terms of the
4 option may not be less than 85 percent of the fair
5 market value of the stock at the time such option is
6 exercised;

7 “(7) under the terms of the plan, such option can-
8 not be exercised after the expiration of—

9 “(A) 5 years from the date such option is
10 granted if, under the terms of such plan, the option
11 price is to be not less than 85 percent of the fair
12 market value of such stock at the time of the exer-
13 cise of the option, or

14 “(B) 27 months from the date such option is
15 granted, if the option price is not determinable in
16 the manner described in subparagraph (A) ;

17 “(8) under the terms of the plan, no employee
18 may be granted an option which permits his rights to
19 purchase stock under all such plans of his employer
20 corporation and its parent and subsidiary corporations
21 to accrue at a rate which exceeds \$25,000 of fair mar-
22 ket value of such stock (determined at the time such
23 option is granted) for each calendar year in which such
24 option is outstanding at any time. For purposes of this
25 paragraph—

1 “(A) the right to purchase stock under an
2 option accrues when the option (or any portion
3 thereof) first becomes exercisable during the
4 calendar year;

5 “(B) the right to purchase stock under an
6 option accrues at the rate provided in the option,
7 but in no case may such rate exceed \$25,000 of
8 fair market value of such stock (determined at the
9 time such option is granted) for any one calendar
10 year; and

11 “(C) a right to purchase stock which has
12 accrued under one option granted pursuant to the
13 plan may not be carried over to any other option;
14 and

15 “(9) under the terms of the plan, such option is
16 not transferable by such individual otherwise than by
17 will or the laws of descent and distribution, and is exer-
18 cisable, during his lifetime, only by him.

19 For purposes of paragraphs (3) to (9), inclusive, where
20 additional terms are contained in an offering made under a
21 plan, such additional terms shall, with respect to options
22 exercised under such offering, be treated as a part of the
23 terms of such plan.

24 “(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN
25 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the

1 option price of a share of stock acquired by an individual pursu-
2 ant to a transfer to which subsection (a) applies was less than
3 100 percent of the fair market value of such share at the
4 time such option was granted, then, in the event of any
5 disposition of such share by him which meets the holding
6 period requirements of subsection (a), or in the event of
7 his death (whenever occurring) while owning such share,
8 there shall be included as compensation (and not as gain
9 upon the sale or exchange of a capital asset) in his gross
10 income, for the taxable year in which falls the date of
11 such disposition or for the taxable year closing with his
12 death, whichever applies, an amount equal to the lesser of—

13 “(1) the excess of the fair market value of the
14 share at the time of such disposition or death over
15 the amount paid for the share under the option, or

16 “(2) the excess of the fair market value of the
17 share at the time the option was granted over the option
18 price.

19 If the option price is not fixed or determinable at the time
20 the option is granted, then for purposes of this subsection,
21 the option price shall be determined as if the option were
22 exercised at such time. In the case of the disposition of
23 such share by the individual, the basis of the share in his
24 hands at the time of such disposition shall be increased by an

1 amount equal to the amount so includible in his gross income.

2 **"SEC. 424. RESTRICTED STOCK OPTIONS.**

3 “(a) IN GENERAL.—Section 421 (a) shall apply with
4 respect to the transfer of a share of stock to an individual
5 pursuant to his exercise after 1949 of a restricted stock
6 option, if—

7 “(1) no disposition of such share is made by him
8 within 2 years from the date of the granting of the
9 option nor within 6 months after the transfer of such
10 share to him, and

11 “(2) at the time he exercises such option—

12 “(A) he is an employee of either the corpora-
13 tion granting such option, a parent or subsidiary
14 corporation of such corporation, or a corporation or
15 a parent or subsidiary corporation of such corpora-
16 tion issuing or assuming a stock option in a trans-
17 action to which section 425 (a) applies, or

18 “(B) he ceased to be an employee of such
19 corporations within the 3-month period preceding
20 the time of exercise.

21 “(b) RESTRICTED STOCK OPTION.—For purposes of
22 this part, the term ‘restricted stock option’ means an option
23 granted after February 26, 1945, and before June 12, 1963

1 (or, if it meets the requirements of subsection (c) (4), an
2 option granted after June 11, 1963), to an individual,
3 for any reason connected with his employment by a corpo-
4 ration, if granted by the employer corporation or its parent
5 or subsidiary corporation, to purchase stock of any of such
6 corporations, but only if—

7 “(1) at the time such option is granted—

8 “(A) the option price is at least 85 percent of
9 the fair market value at such time of the stock sub-
10 ject to the option, or

11 “(B) in the case of a variable price option, the
12 option price (computed as if the option had been
13 exercised when granted) is at least 85 percent of
14 the fair market value of the stock at the time such
15 option is granted;

16 “(2) such option by its terms is not transferable by
17 such individual otherwise than by will or the laws of
18 descent and distribution, and is exercisable, during his
19 lifetime, only by him;

20 “(3) such individual, at the time the option is
21 granted, does not own stock possessing more than 10
22 percent of the total combined voting power of all classes
23 of stock of the employer corporation or of its parent
24 or subsidiary corporation. This paragraph shall not
25 apply if at the time such option is granted, the option

1 price is at least 110 percent of the fair market value
2 of the stock subject to the option, and such option either
3 by its terms is not exercisable after the expiration of 5
4 years from the date such option is granted or is exer-
5 cised within one year after August 16, 1954. For
6 purposes of this paragraph, the provisions of section 425
7 (d) shall apply in determining the stock ownership of an
8 individual; and

9 “(4) such option by its terms is not exercisable
10 after the expiration of 10 years from the date such
11 option is granted, if such option has been granted on or
12 after June 22, 1954.

13 “(c) SPECIAL RULES.—

14 “(1) OPTIONS UNDER WHICH OPTION PRICE IS
15 BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF
16 STOCK.—If no disposition of a share of stock acquired by
17 an individual on his exercise after 1949 of a restricted
18 stock option is made by him within 2 years from the date
19 of the granting of the option nor within 6 months after
20 the transfer of such share to him, but, at the time the
21 restricted stock option was granted, the option price
22 (computed under subsection (b) (1)) was less than
23 95 percent of the fair market value at such time of such
24 share, then, in the event of any disposition of such share
25 by him, or in the event of his death (whenever occur-

1 ring) while owning such share, there shall be included
 2 as compensation (and not as gain upon the sale or ex-
 3 change of a capital asset) in his gross income, for the
 4 taxable year in which falls the date of such disposition
 5 or for the taxable year closing with his death, whichever
 6 applies—

7 “(A) in the case of a share of stock acquired
 8 under an option qualifying under subsection (b)
 9 (1) (A), an amount equal to the amount (if any)
 10 by which the option price is exceeded by the lesser
 11 of—

12 “(i) the fair market value of the share at
 13 the time of such disposition or death, or

14 “(ii) the fair market value of the share
 15 at the time the option was granted; or

16 “(B) in the case of stock acquired under an
 17 option qualifying under subsection (b) (1) (B), an
 18 amount equal to the lesser of—

19 “(i) the excess of the fair market value of
 20 the share at the time of such disposition or
 21 death over the price paid under the option, or

22 “(ii) the excess of the fair market value of
 23 the share at the time the option was granted
 24 over the option price (computed as if the option
 25 had been exercised at such time).

1 In the case of a disposition of such share by the indi-
2 vidual, the basis of the share in his hands at the time
3 of such disposition shall be increased by an amount
4 equal to the amount so includible in his gross income.

5 “(2) STOCKHOLDER APPROVAL.—For purposes of
6 this section, if the grant of an option is subject to ap-
7 proval by stockholders, the date of grant of the option
8 shall be determined as if the option had not been subject
9 to such approval.

10 “(3) VARIABLE PRICE OPTION.—For purposes of
11 subsection (b) (1), the term ‘variable price option’
12 means an option under which the purchase price of the
13 stock is fixed or determinable under a formula in which
14 the only variable is the fair market value of the stock
15 at any time during a period of 6 months which includes
16 the time the option is exercised; except that in the case
17 of options granted after September 30, 1958, such term
18 does not include any such option in which such formula
19 provides for determining such price by reference to the
20 fair market value of the stock at any time before the
21 option is exercised if such value may be greater than the
22 average fair market value of the stock during the calen-
23 dar month in which the option is exercised.

24 “(4) CERTAIN OPTIONS GRANTED AFTER JUNE
25 11, 1963.—For purposes of subsection (b), an option

1 granted after June 11, 1963, meets the requirements
2 of this paragraph if granted pursuant to—

3 “(A) a binding written contract entered into
4 before June 12, 1963, or

5 “(B) a written plan adopted and approved
6 before June 12, 1963, which (as of June 12, 1963,
7 and as of the date of the granting of the option) —

8 “(i) met the requirements of paragraphs
9 (4) and (5) of section 423 (b), or

10 “(ii) was being administered in a way
11 which did not discriminate in favor of officers,
12 persons whose principal duties consist of super-
13 vising the work of other employees, or highly
14 compensated employees.

15 **“SEC. 425. DEFINITIONS AND SPECIAL RULES.**

16 “(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS,
17 ETC.—For purposes of this part, the term ‘issuing or assum-
18 ing a stock option in a transaction to which section 425 (a)
19 applies’ means a substitution of a new option for the old
20 option, or an assumption of the old option, by an employer
21 corporation, or a parent or subsidiary of such corporation,
22 by reason of a corporate merger, consolidation, acquisition of
23 property or stock, separation, reorganization, or liquidation,
24 if—

25 “(1) the excess of the aggregate fair market value

1 of the shares subject to the option immediately after the
 2 substitution or assumption over the aggregate option
 3 price of such shares is not more than the excess of the
 4 aggregate fair market value of all shares subject to the
 5 option immediately before such substitution or assump-
 6 tion over the aggregate option price of such shares, and

7 “(2) the new option or the assumption of the old
 8 option does not give the employee additional benefits
 9 which he did not have under the old option.

10 For purposes of this subsection, the parent-subsidary rela-
 11 tionship shall be determined at the time of any such trans-
 12 action under this subsection.

13 “(b) ACQUISITION OF NEW STOCK.—For purposes of
 14 this part, if stock is received by an individual in a distribu-
 15 tion to which section 305, 354, 355, 356, or 1036 (or so
 16 much of section 1031 as relates to section 1036) applies, and
 17 such distribution was made with respect to stock transferred
 18 to him upon his exercise of the option, such stock shall be
 19 considered as having been transferred to him on his exercise
 20 of such option. A similar rule shall be applied in the case of a
 21 series of such distributions.

22 “(c) DISPOSITION.—

23 “(1) IN GENERAL.—Except as provided in para-
 24 graph (2), for purposes of this part, the term ‘disposi-

1 tion' includes a sale, exchange, gift, or a transfer of legal
2 title, but does not include—

3 “(A) a transfer from a decedent to an estate
4 or a transfer by bequest or inheritance;

5 “(B) an exchange to which section 354, 355,
6 356, or 1036 (or so much of section 1031 as relates
7 to section 1036) applies; or

8 “(C) a mere pledge or hypothecation.

9 “(2) JOINT TENANCY.—The acquisition of a share
10 of stock in the name of the employee and another jointly
11 with the right of survivorship or a subsequent transfer
12 of a share of stock into such joint ownership shall not
13 be deemed a disposition, but a termination of such joint
14 tenancy (except to the extent such employee acquires
15 ownership of such stock) shall be treated as a disposition
16 by him occurring at the time such joint tenancy is
17 terminated.

18 “(d) ATTRIBUTION OF STOCK OWNERSHIP.—For pur-
19 poses of this part, in applying the percentage limitations of
20 sections 422 (b) (7), 423 (b) (3), and 424 (b) (3) —

21 “(1) the individual with respect to whom such
22 limitation is being determined shall be considered as
23 owning the stock owned, directly or indirectly, by or
24 for his brothers and sisters (whether by the whole or

1 half blood), spouse, ancestors, and lineal descendants;
 2 and

3 “(2) stock owned, directly or indirectly, by or for
 4 a corporation, partnership, estate, or trust, shall be con-
 5 sidered as being owned proportionately by or for its
 6 shareholders, partners, or beneficiaries.

7 “(e) PARENT CORPORATION.—For purposes of this
 8 part, the term ‘parent corporation’ means any corporation
 9 (other than the employer corporation) in an unbroken chain
 10 of corporations ending with the employer corporation if, at
 11 the time of the granting of the option, each of the corpora-
 12 tions other than the employer corporation owns stock pos-
 13 sessing 50 percent or more of the total combined voting
 14 power of all classes of stock in one of the other corporations
 15 in such chain.

16 “(f) SUBSIDIARY CORPORATION.—For purposes of this
 17 part, the term ‘subsidiary corporation’ means any corporation
 18 (other than the employer corporation) in an unbroken chain
 19 of corporations beginning with the employer corporation
 20 if, at the time of the granting of the option, each of the cor-
 21 porations other than the last corporation in the unbroken
 22 chain owns stock possessing 50 percent or more of the total
 23 combined voting power of all classes of stock in one of the
 24 other corporations in such chain.

1 “(g) SPECIAL RULE FOR APPLYING SUBSECTIONS
 2 (e) AND (f).—In applying subsections (e) and (f) for
 3 purposes of section 422 (a) (2), 423 (a) (2), and 424 (a)
 4 (2), there shall be substituted for the term ‘employer cor-
 5 poration’ wherever it appears in subsections (e) and (f) the
 6 term ‘grantor corporation’, or the term ‘corporation issuing
 7 or assuming a stock option in a transaction to which section
 8 425 (a) applies’, as the case may be.

9 “(h) MODIFICATION, EXTENSION, OR RENEWAL OF
 10 OPTION.—

11 “(1) IN GENERAL.—For purposes of this part, if
 12 the terms of any option to purchase stock are modified,
 13 extended, or renewed, such modification, extension, or
 14 renewal shall be considered as the granting of a new
 15 option.

16 “(2) SPECIAL RULES FOR SECTIONS 423 AND 424
 17 OPTIONS.—

18 “(A) In the case of the transfer of stock pur-
 19 suant to the exercise of an option to which section
 20 423 or 424 applies and which has been so modified,
 21 extended, or renewed, then, except as provided in
 22 subparagraph (B), the fair market value of such
 23 stock at the time of the granting of such option shall
 24 be considered as whichever of the following is the
 25 highest:

1 “(i) the fair market value of such stock
2 on the date of the original granting of the
3 option,

4 “(ii) the fair market value of such stock
5 on the date of the making of such modifica-
6 tion, extension, or renewal, or

7 “(iii) the fair market value of such stock
8 at the time of the making of any intervening
9 modification, extension, or renewal.

10 “(B) Subparagraph (A) shall not apply with
11 respect to a modification, extension, or renewal of
12 a restricted stock option before June 12, 1963 (or
13 after June 11, 1963, if made pursuant to a bind-
14 ing written contract entered into before June 12,
15 1963), if the aggregate of the monthly average fair
16 market values of the stock subject to the option
17 for the 12 consecutive calendar months before the
18 date of the modification, extension, or renewal,
19 divided by 12, is an amount less than 80 percent
20 of the fair market value of such stock on the date
21 of the original granting of the option or the date
22 of the making of any intervening modification, ex-
23 tension, or renewal, whichever is the highest.

24 “(3) DEFINITION OF MODIFICATION.—The term
25 ‘modification’ means any change in the terms of the

1 option which gives the employee additional benefits
 2 under the option, but such term shall not include a
 3 change in the terms of the option—

4 “(A) attributable to the issuance or assump-
 5 tion of an option under subsection (a) ; or

6 “(B) to permit the option to qualify under
 7 sections 422 (b) (6) , 423 (b) (9) , and 424 (b) (2) .

8 If a restricted stock option is exercisable after the expira-
 9 tion of 10 years from the date such option is granted, sub-
 10 paragraph (B) shall not apply unless the terms of the
 11 option are also changed to make it not exercisable after
 12 the expiration of such period.

13 “(i) CROSS REFERENCES.—

 “**For provisions requiring the reporting of certain acts
 with respect to a qualified stock option, options granted
 under employer stock purchase plans, or a restricted
 stock option, see section 6039.**”

14 (b) ADMINISTRATIVE PROVISIONS.—

15 (1) REPORTING REQUIREMENT FOR CERTAIN
 16 OPTIONS.—Subpart A of part III of subchapter A of
 17 chapter 61 (relating to information returns) is amended
 18 by renumbering section 6039 as 6040, and by inserting
 19 after section 6038 the following new section:

1 **"SEC. 6039. INFORMATION REQUIRED IN CONNECTION**
2 **WITH CERTAIN OPTIONS.**

3 “(a) REQUIREMENT OF REPORTING.—Every corpora-
4 tion—

5 “(1) which in any calendar year transfers a share
6 of stock to any person pursuant to such person’s exer-
7 cise of a qualified stock option or a restricted stock
8 option, or

9 “(2) which in any calendar year records (or has
10 by its agent recorded) a transfer of the legal title of a
11 share of stock—

12 “(A) acquired by the transferor pursuant to his
13 exercise of an option described in section 423 (c)
14 (relating to special rule where option price is be-
15 tween 85 percent and 100 percent of value of
16 stock), or

17 “(B) acquired by the transferor pursuant to
18 his exercise of a restricted stock option described in
19 section 424 (c) (1) (relating to options under
20 which option price is between 85 percent and 95
21 percent of value of stock),

1 shall, for such calendar year, make a return at such time
2 and in such manner, and setting forth such information, as
3 the Secretary or his delegate may by regulations prescribe.
4 For purposes of the preceding sentence, any option which a
5 corporation treats as a qualified stock option, a restricted
6 stock option, or an option granted under an employee stock
7 purchase plan, shall be deemed to be such an option. A
8 return is required by reason of a transfer described in para-
9 graph (2) of a share only with respect to the first transfer
10 of such share by the person who exercised the option.

11 “(b) STATEMENTS TO BE FURNISHED TO PERSONS
12 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
13 Every corporation making a return under subsection
14 (a) shall furnish to each person whose name is set forth
15 in such return a written statement setting forth such informa-
16 tion as the Secretary or his delegate may by regulations
17 prescribe. The written statement required under the preced-
18 ing sentence shall be furnished to the person on or before
19 January 31 of the year following the calendar year for which
20 the return under subsection (a) was made.

21 “(c) IDENTIFICATION OF STOCK.—Any corporation
22 which transfers any share of stock pursuant to the exercise
23 of an option described in subsection (a) (2) shall identify
24 such stock in a manner adequate to carry out the purposes
25 of this section.

1 “(d) CROSS REFERENCES.—

“For definition of—

“ (1) The term ‘qualified stock option’, see section 422(b).

“ (2) The term ‘employee stock purchase plan’, see section 423(b).

“ (3) The term ‘restricted stock option’, see section 424(b).”

2 (2) PENALTIES FOR FAILURE TO FILE INFORMA-
3 TION RETURNS.—Section 6652 (a) (relating to failure
4 to file certain information returns) is amended to read
5 as follows:

6 “(a) RETURNS RELATING TO PAYMENTS OF DIVI-
7 DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In
8 the case of each failure to file a statement of—

9 “(1) the aggregate amount of payments to another
10 person required by section 6042 (a) (1) (relating to
11 payments of dividends aggregating \$10 or more), sec-
12 tion 6044 (a) (1) (relating to payments of patronage
13 dividends aggregating \$10 or more), or section 6049
14 (a) (1) (relating to payments of interest aggregating
15 \$10 or more), or

16 “(2) the transfer of stock or the transfer of legal
17 title of stock required by section 6039 (relating to
18 information in connection with certain options),
19 on the date prescribed therefor (determined with regard to
20 any extension of time for filing), unless it is shown that such

1 failure is due to reasonable cause and not to willful neglect,
 2 there shall be paid (upon notice and demand by the Secre-
 3 tary or his delegate and in the same manner as tax), by the
 4 person failing to so file the statement, \$10 for each such
 5 statement not so filed, but the total amount imposed on the
 6 delinquent person for all such failures during any calendar
 7 year shall not exceed \$25,000."

8 (3) PENALTIES FOR FAILURE TO FURNISH
 9 STATEMENTS TO PERSONS WITH RESPECT TO WHOM
 10 RETURNS ARE FILED.—Section 6678 (relating to failure
 11 to furnish certain statements) is amended—

12 (A) by striking out "section 6042 (c)," and
 13 inserting in lieu thereof "section 6039 (b), 6042
 14 (c)," ; and

15 (B) by striking out "section 6042 (a) (1)," and
 16 inserting in lieu thereof "section 6039 (a),
 17 6042 (a) (1),".

18 (c) TECHNICAL AMENDMENTS.—

19 (1) Section 402 (a) (3) (B) (relating to tax-
 20 ability of beneficiary of employees' trust) is amended
 21 by striking out "section 421 (d) (2) and (3)" and in-
 22 serting in lieu thereof "subsections (e) and (f) of
 23 section 425".

24 (2) The last sentence of subparagraph (B) of

1 section 691 (c) (2) (relating to allowance of deduction
2 for estate tax in case of items constituting income in
3 respect of a decedent) is amended to read as follows:

4 “Such net value shall be determined with respect to the
5 provisions of section 421 (c) (2), relating to the deduc-
6 tion for estate tax with respect to stock options to which
7 part II of subchapter D applies.”

8 (d) CLERICAL AMENDMENTS.—

9 (1) The table of parts for subchapter D of chapter
10 1 is amended by striking out

“Part II. Miscellaneous provisions.”

11 and inserting in lieu thereof the following:

“Part II. Certain stock options.”

12 (2) The table of sections for subpart A of part
13 III of subchapter A of chapter 61 is amended by
14 striking out

“Sec. 6039. Cross references.”

15 and inserting in lieu thereof:

“Sec. 6039. Information required in connection with certain
options.

“Sec. 6040. Cross references.”

16 (e) EFFECTIVE DATE.—

17 (1) Except as provided in paragraph (2),
18 the amendments made by this section shall apply to
19 taxable years ending after June 11, 1963.

1 (2) The amendments made by subsection (b) shall
 2 apply to stock transferred pursuant to options exercised
 3 on or after January 1, 1964.

4 **SEC. 215. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

5 (a) **IN GENERAL.**—Part III of subchapter E of chapter
 6 1 (relating to accounting periods and methods of account-
 7 ing) is amended by adding at the end thereof the following
 8 new section:

9 **“SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

10 “(a) **AMOUNT CONSTITUTING INTEREST.**—For pur-
 11 poses of this title, in the case of any contract for the sale
 12 or exchange of property there shall be treated as interest
 13 that part of a payment to which this section applies which
 14 bears the same ratio to the amount of such payment as the
 15 total unstated interest under such contract bears to the total
 16 of the payments to which this section applies which are due
 17 under such contract.

18 “(b) **TOTAL UNSTATED INTEREST.**—For purposes of
 19 this section, the term ‘total unstated interest’ means, with
 20 respect to a contract for the sale or exchange of property,
 21 an amount equal to the excess of—

22 “(1) the sum of the payments to which this sec-
 23 tion applies which are due under the contract, over

1 “(2) the sum of the present values of such pay-
 2 ments and the present values of any interest payments
 3 due under the contract.

4 For purposes of paragraph (2), the present value of a pay-
 5 ment shall be determined, as of the date of the sale or ex-
 6 change, by discounting such payment at the rate, and in the
 7 manner, provided in regulations prescribed by the Secretary
 8 or his delegate. Such regulations shall provide for discount-
 9 ing on the basis of 6-month brackets and shall provide that
 10 the present value of any interest payment due not more than
 11 6 months after the date of the sale or exchange is an amount
 12 equal to 100 percent of such payment.

13 “(c) PAYMENTS TO WHICH SECTION APPLIES.—

14 “(1) IN GENERAL.—Except as provided in sub-
 15 section (f), this section shall apply to any payment on
 16 account of the sale or exchange of property which con-
 17 stitutes part or all of the sales price and which is due
 18 more than 6 months after the date of such sale or ex-
 19 change under a contract—

20 “(A) under which some or all of the payments
 21 are due more than one year after the date of such
 22 sale or exchange, and

23 “(B) under which, using a rate provided by

1 regulations prescribed by the Secretary or his dele-
 2 gate for purposes of this subparagraph, there is total
 3 unstated interest.

4 Any rate prescribed for determining whether there is
 5 total unstated interest for purposes of subparagraph (B)
 6 shall be at least one percentage point lower than the
 7 rate prescribed for purposes of subsection (b) (2).

8 “(2) TREATMENT OF EVIDENCE OF INDEBTED-
 9 NESS.—For purposes of this section, an evidence of in-
 10 debtedness of the purchaser given in consideration for
 11 the sale or exchange of property shall not be considered
 12 a payment, and any payment due under such evidence
 13 of indebtedness shall be treated as due under the contract
 14 for the sale or exchange.

15 “(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME,
 16 LIABILITY, OR AMOUNT.—In the case of a contract for the
 17 sale or exchange of property under which the liability for,
 18 or the amount or due date of, any portion of a payment can-
 19 not be determined at the time of the sale or exchange, this
 20 section shall be separately applied to such portion as if it
 21 (and any amount of interest attributable to such portion)
 22 were the only payments due under the contract; and such
 23 determinations of liability, amount, and due date shall be
 24 made at the time payment of such portion is made.

25 “(e) CHANGE IN TERMS OF CONTRACT.—If the lia-

1 bility for, or the amount or due date of, any payment (includ-
 2 ing interest) under a contract for the sale or exchange of
 3 property is changed, the 'total unstated interest' under the
 4 contract shall be recomputed and allocated (with adjustment
 5 for prior interest (including unstated interest) payments)
 6 under regulations prescribed by the Secretary or his delegate.

7 “(f) EXCEPTIONS AND LIMITATIONS.—

8 “(1) SALES PRICE OF \$3,000 OR LESS.—This sec-
 9 tion shall not apply to any payment on account of the
 10 sale or exchange of property if it can be determined at
 11 the time of such sale or exchange that the sales price
 12 cannot exceed \$3,000.

13 “(2) CARRYING CHARGES.—In the case of the pur-
 14 chaser, the tax treatment of amounts paid on account
 15 of the sale or exchange of property shall be made with-
 16 out regard to this section if any such amounts are treated
 17 under section 163 (b) as if they included interest.

18 “(3) TREATMENT OF SELLER.—In the case of the
 19 seller, the tax treatment of any amounts received on
 20 account of the sale or exchange of property shall be
 21 made without regard to this section if no part of any
 22 gain on such sale or exchange would be considered as
 23 gain from the sale or exchange of a capital asset or prop-
 24 erty described in section 1231.

25 “(4) SALES OR EXCHANGES OF PATENTS.—This

1 section shall not apply to any payments made pursuant
 2 to a transfer described in section 1235 (a) (relating to
 3 sale or exchange of patents).

4 “(5) ANNUITIES.—This section shall not apply to
 5 any amount the liability for which depends in whole or
 6 in part on the life expectancy of one or more individ-
 7 uals and which constitutes an amount received as an
 8 annuity to which section 72 applies.”

9 (b) CLERICAL AMENDMENT.—The table of sections for
 10 such part is amended by adding at the end thereof the fol-
 11 lowing new item:

“Sec. 483. Interest on certain deferred payments.”

12 (c) CERTAIN CARRYING CHARGES.—The first sentence
 13 of section 163 (b) (1) (relating to installment purchases
 14 where interest charge is not separately stated) is amended
 15 by striking out “personal property is purchased” and inserting
 16 in lieu thereof “personal property or services are purchased”.

17 (d) EFFECTIVE DATES.—The amendments made by
 18 subsections (a) and (b) shall apply to payments made after
 19 December 31, 1963, on account of sales or exchanges of
 20 property occurring after June 30, 1963. The amendment
 21 made by subsection (c) shall apply to payments made dur-
 22 ing taxable years beginning after December 31, 1963.

1 SEC. 216. PERSONAL HOLDING COMPANIES.

2 (a) PERSONAL HOLDING COMPANY TAX RATE.—

3 Section 541 (relating to imposition of personal holding
4 company tax) is amended by striking out “tax equal to”
5 and all that follows and inserting in lieu thereof: “tax equal
6 to 70 percent of the undistributed personal holding company
7 income.”

8 (b) DEFINITION OF PERSONAL HOLDING COMPANY.—

9 Paragraph (1) of section 542 (a) (relating to the gross
10 income requirement for personal holding company purposes)
11 is amended to read as follows:

12 “(1) ADJUSTED ORDINARY GROSS INCOME RE-
13 QUIREMENT.—At least 60 percent of its adjusted
14 ordinary gross income (as defined in section 543 (b)
15 (2)) for the taxable year is personal holding company
16 income (as defined in section 543 (a)), and”.

17 (c) EXCLUDED CORPORATIONS.—

18 (1) DOMESTIC BUILDING AND LOAN ASSOCIA-
19 TIONS.—Paragraph (2) of section 542 (c) (relating to
20 corporations excepted from the definition of personal
21 holding company) is amended to read as follows:

22 “(2) a bank as defined in section 581, or a do-

1 mestic building and loan association within the meaning
2 of section 7701 (a) (19) without regard to subpara-
3 graphs (D) and (E) thereof;”.

4 (2) LENDING AND FINANCE COMPANIES.—Sec-
5 tion 542 (c) is amended by striking out paragraphs (6),
6 (7), (8), and (9), by renumbering paragraphs (10)
7 and (11) as paragraphs (7) and (8), and by insert-
8 ing after paragraph (5) the following new paragraph:

9 “(6) a lending or finance company if—

10 “(A) 60 percent or more of its ordinary gross
11 income (as defined in section 543 (b) (1)) is de-
12 rived directly from the active and regular conduct
13 of a lending or finance business;

14 “(B) the personal holding company income for
15 the taxable year (computed without regard to in-
16 come described in subsection (d) (3) and in-
17 come derived directly from the active and regular
18 conduct of a lending or finance business, and com-
19 puted by including as personal holding company
20 income the entire amount of the gross income from
21 rents, royalties, produced film rents, and compen-
22 sation for use of corporate property by sharehold-
23 ers), plus the interest described in section 543
24 (b) (2) (C), is not more than 20 percent of the
25 ordinary gross income;

“(C) the sum of the deductions which are directly allocable to the active and regular conduct of its lending or finance business equals or exceeds the sum of—

“(i) 15 percent of so much of the ordinary gross income derived therefrom as does not exceed \$500,000, plus

“(ii) 5 percent of so much of the ordinary gross income derived therefrom as exceeds \$500,000 but not \$1,000,000; and

“(D) the loans to a person who is a shareholder in such company during the taxable year by or for whom 10 percent or more in value of its outstanding stock is owned directly or indirectly (including, in the case of an individual, stock owned by members of his family as defined in section 544 (a) (2)), outstanding at any time during such year do not exceed \$5,000 in principal amount;”.

(3) SPECIAL RULES FOR SECTION 542(c)(6).—Section 542 is amended by adding at the end thereof the following new subsection:

“(d) SPECIAL RULES FOR APPLYING SUBSECTION (c) (6).—

“(1) LENDING OR FINANCE BUSINESS DEFINED.—

“(A) IN GENERAL.—Except as provided in

1 subparagraph (B), for purposes of subsection (c)
 2 (6), the term 'lending or finance business' means
 3 a business of—

4 “(i) making loans, or

5 “(ii) purchasing or discounting accounts
 6 receivable, notes, or installment obligations.

7 “(B) EXCEPTIONS.—For purposes of subpara-
 8 graph (A), the term 'lending or finance business'
 9 does not include the business of—

10 “(i) making loans, or purchasing or dis-
 11 counting accounts receivable, notes, or install-
 12 ment obligations, if (at the time of the loan,
 13 purchase, or discount) the remaining maturity
 14 exceeds 60 months, or

15 “(ii) making loans evidenced by, or pur-
 16 chasing, certificates of indebtedness issued in a
 17 series, under a trust indenture, and in registered
 18 form or with interest coupons attached.

19 For purposes of clause (i), the remaining maturity
 20 shall be treated as including any period for which
 21 there may be a renewal or extension under the terms
 22 of an option exercisable by the borrower.

23 “(2) BUSINESS DEDUCTIONS.—For purposes of
 24 subsection (c) (6) (C), the deductions which may be
 25 taken into account shall include only—

1 “(A) deductions which are allowable only by
 2 reason of section 162 or section 404, except there
 3 shall not be included any such deduction in respect
 4 of compensation for personal services rendered by
 5 shareholders (including members of the share-
 6 holder’s family as described in section 544 (a) (2)),
 7 and

8 “(B) deductions allowable under section 167,
 9 and deductions allowable under section 164 for
 10 real property taxes, but in either case only to the
 11 extent that the property with respect to which such
 12 deductions are allowable is used directly in the
 13 active and regular conduct of the lending or finance
 14 business.

15 “(3) INCOME RECEIVED FROM CERTAIN DOMESTIC
 16 SUBSIDIARIES.—For purposes of subsection (c) (6)
 17 (B), in the case of a lending company which is author-
 18 ized to engage in and is actively and regularly engaged
 19 in the small loan business (consumer finance business)
 20 under one or more State statutes providing for the direct
 21 regulation of such business, and which meets the require-
 22 ments of subsection (c) (6) (A), there shall not be
 23 treated as personal holding company income the law-
 24 ful income received from domestic subsidiary corpora-
 25 tions (of which stock possessing at least 80 percent of

1 the voting power of all classes of stock and of which at
 2 least 80 percent of each class of nonvoting stock is
 3 owned directly by such lending company) which are
 4 themselves excepted under subsection (c) (6)."

5 (d) PERSONAL HOLDING COMPANY INCOME.—Subsec-
 6 tions (a) and (b) of section 543 (relating to personal
 7 holding company income) are amended to read as follows:

8 "(a) GENERAL RULE.—For purposes of this subtitle,
 9 the term 'personal holding company income' means the
 10 portion of the adjusted ordinary gross income which consists
 11 of:

12 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
 13 ties (other than mineral, oil, or gas royalties or copy-
 14 right royalties), and annuities. This paragraph shall
 15 not apply to—

16 "(A) interest constituting rent (as defined in
 17 subsection (b) (3)),

18 "(B) interest on amounts set aside in a re-
 19 serve fund under section 511 or 607 of the Mer-
 20 chant Marine Act, 1936, and

21 "(C) a dividend distribution of divested stock
 22 (as defined in subsection (e) of section 1111), but
 23 only if the stock with respect to which the distribu-
 24 tion is made was owned by the distributee on Sep-
 25 tember 6, 1961, or was owned by the distributee

1 for at least 2 years before the date on which the
 2 antitrust order (as defined in subsection (d) of sec-
 3 tion 1111) was entered.

4 “(2) RENTS.—The adjusted income from rents;
 5 except that such adjusted income shall not be included
 6 if—

7 “(A) such adjusted income constitutes 50 per-
 8 cent or more of the adjusted ordinary gross income,
 9 and

10 “(B) the personal holding company income for
 11 the taxable year (computed without regard to this
 12 paragraph and paragraph (6), and computed by
 13 including as personal holding company income
 14 copyright royalties and the adjusted income from
 15 mineral, oil, and gas royalties) is not more than
 16 10 percent of the ordinary gross income.

17 “(3) MINERAL, OIL, AND GAS ROYALTIES.—The
 18 adjusted income from mineral, oil, and gas royalties;
 19 except that such adjusted income shall not be included
 20 if—

21 “(A) such adjusted income constitutes 50 per-
 22 cent or more of the adjusted ordinary gross income,

23 “(B) the personal holding company income for
 24 the taxable year (computed without regard to this
 25 paragraph, and computed by including as personal

1 holding company income copyright royalties and
 2 the adjusted income from rents) is not more than
 3 10 percent of the ordinary gross income, and

4 “(C) the sum of the deductions which are al-
 5 lowable under section 162 (relating to trade or busi-
 6 ness expenses) other than—

7 “(i) deductions for compensation for per-
 8 sonal services rendered by the shareholders,
 9 and

10 “(ii) deductions which are specifically al-
 11 lowable under sections other than section 162,
 12 equals or exceeds 15 percent of the adjusted ordi-
 13 nary gross income.

14 “(4) COPYRIGHT ROYALTIES.—Copyright royalties;
 15 except that copyright royalties shall not be included if—

16 “(A) such royalties (exclusive of royalties
 17 received for the use of, or right to use, copyrights
 18 or interests in copyrights on works created in whole,
 19 or in part, by any shareholder) constitute 50 per-
 20 cent or more of the ordinary gross income,

21 “(B) the personal holding company income
 22 for the taxable year computed—

23 “(i) without regard to copyright royalties,
 24 other than royalties received for the use of, or
 25 right to use, copyrights or interests in copyrights

1 in works created in whole, or in part, by any
2 shareholder owning more than 10 percent of
3 the total outstanding capital stock of the cor-
4 poration,

5 “(ii) without regard to dividends from any
6 corporation in which the taxpayer owns at least
7 50 percent of all classes of stock entitled to
8 vote and at least 50 percent of the total value
9 of all classes of stock and which corporation
10 meets the requirements of this subparagraph
11 and subparagraphs (A) and (C), and

12 “(iii) by including as personal holding
13 company income the adjusted income from
14 rents and the adjusted income from mineral,
15 oil, and gas royalties,

16 is not more than 10 percent of the ordinary gross
17 income, and

18 “(C) the sum of the deductions which are
19 properly allocable to such royalties and which are
20 allowable under section 162, other than—

21 “(i) deductions for compensation for per-
22 sonal services rendered by the shareholders,

23 “(ii) deductions for royalties paid or ac-
24 crued, and

1 “(iii) deductions which are specifically
2 allowable under sections other than section 162,
3 equals or exceeds 25 percent of the amount by
4 which the ordinary gross income exceeds the sum
5 of the royalties paid or accrued and the amounts
6 allowable as deductions under section 167 (relating
7 to depreciation) with respect to copyright royalties.
8 For purposes of this subsection, the term ‘copyright
9 royalties’ means compensation, however designated, for
10 the use of, or the right to use, copyrights in works pro-
11 tected by copyright issued under title 17 of the United
12 States Code (other than by reason of section 2 or 6
13 thereof) and to which copyright protection is also
14 extended by the laws of any country other than the
15 United States of America by virtue of any international
16 treaty, convention, or agreement, or interests in any
17 such copyrighted works, and includes payments from
18 any person for performing rights in any such copy-
19 righted work and payments (other than produced film
20 rents as defined in paragraph (5) (B)) received for
21 the use of, or right to use, films. For purposes of this
22 paragraph, the term ‘shareholder’ shall include any per-
23 son who owns stock within the meaning of section 544.

1 “(5) PRODUCED FILM RENTS.—

2 “(A) Produced film rents; except that such
3 rents shall not be included if such rents constitute
4 50 percent or more of the ordinary gross income.

5 “(B) For purposes of this section, the term
6 ‘produced film rents’ means payments received with
7 respect to an interest in a film for the use of, or
8 right to use, such film, but only to the extent that
9 such interest was acquired before substantial com-
10 pletion of production of such film.

11 “(6) USE OF CORPORATION PROPERTY BY SHARE-
12 HOLDER.—Amounts received as compensation (however
13 designated and from whomsoever received) for the use
14 of, or right to use, property of the corporation in any
15 case where, at any time during the taxable year, 25
16 percent or more in value of the outstanding stock of the
17 corporation is owned, directly or indirectly, by or for an
18 individual entitled to the use of the property; whether
19 such right is obtained directly from the corporation or
20 by means of a sublease or other arrangement. This
21 paragraph shall apply only to a corporation which has
22 personal holding company income for the taxable year

1 (computed without regard to this paragraph and para-
2 graph (2), and computed by including as personal
3 holding company income copyright royalties and the
4 adjusted income from mineral, oil, and gas royalties)
5 in excess of 10 percent of its ordinary gross income.

6 “(7) PERSONAL SERVICE CONTRACTS.—

7 “(A) Amounts received under a contract un-
8 der which the corporation is to furnish personal
9 services; if some person other than the corporation
10 has the right to designate (by name or by descrip-
11 tion) the individual who is to perform the services,
12 or if the individual who is to perform the services
13 is designated (by name or by description) in the
14 contract; and

15 “(B) amounts received from the sale or other
16 disposition of such a contract.

17 This paragraph shall apply with respect to amounts
18 received for services under a particular contract only if
19 at some time during the taxable year 25 percent or more
20 in value of the outstanding stock of the corporation is
21 owned, directly or indirectly, by or for the individual who
22 has performed, is to perform, or may be designated (by
23 name or by description) as the one to perform, such
24 services.

25 “(8) ESTATES AND TRUSTS.—Amounts includible

1 in computing the taxable income of the corporation un-
 2 der part I of subchapter J (sec. 641 and following,
 3 relating to estates, trusts, and beneficiaries).

4 “(b) DEFINITIONS.—For purposes of this part—

5 “(1) ORDINARY GROSS INCOME.—The term ‘ordi-
 6 nary gross income’ means the gross income determined
 7 by excluding—

8 “(A) all gains from the sale or other disposi-
 9 tion of capital assets, and

10 “(B) all gains (other than those referred to in
 11 subparagraph (A)) from the sale or other disposi-
 12 tion of property described in section 1231 (b).

13 “(2) ADJUSTED ORDINARY GROSS INCOME.—The
 14 term ‘adjusted ordinary gross income’ means the ordinary
 15 gross income adjusted as follows:

16 “(A) RENTS.—From the gross income from
 17 rents (as defined in the second sentence of para-
 18 graph (3) of this subsection) subtract the amount
 19 allowable as deductions for—

20 “(i) exhaustion, wear and tear, obsoles-
 21 cence, and amortization,

22 “(ii) property taxes,

23 “(iii) interest, and

24 “(iv) rent,

25 to the extent allocable, under regulations prescribed

1 by the Secretary or his delegate, to such gross in-
 2 come from rents. The amount subtracted under
 3 this subparagraph shall not exceed such gross in-
 4 come from rents.

5 “(B) MINERAL ROYALTIES, ETC.—From the
 6 gross income from mineral, oil, and gas royalties
 7 described in subsection (a) (3), and from the gross
 8 income from working interests in an oil or gas well,
 9 subtract the amount allowable as deductions for—

10 “(i) exhaustion, wear and tear, obsoles-
 11 cence, amortization, and depletion,

12 “(ii) property and severance taxes,

13 “(iii) interest, and

14 “(iv) rent,

15 to the extent allocable, under regulations prescribed
 16 by the Secretary or his delegate, to such gross in-
 17 come from royalties or such gross income from work-
 18 ing interests in oil or gas wells. The amount sub-
 19 tracted under this subparagraph with respect to
 20 royalties shall not exceed the gross income from such
 21 royalties, and the amount subtracted under this
 22 subparagraph with respect to working interests
 23 shall not exceed the gross income from such working
 24 interests.

25 “(C) INTEREST.—There shall be excluded—

1 “(i) interest received on a direct obliga-
 2 tion of the United States held for sale to
 3 customers in the ordinary course of trade or
 4 business by a regular dealer who is making a
 5 primary market in such obligations, and

6 “(ii) interest on a condemnation award, a
 7 judgment, and a tax refund.

8 “(3) ADJUSTED INCOME FROM RENTS.—The term
 9 ‘adjusted income from rents’ means the gross income
 10 from rents, reduced by the amount subtracted under
 11 paragraph (2) (A) of this subsection. For purposes
 12 of the preceding sentence, the term ‘rents’ means com-
 13 pensation, however designated, for the use of, or right
 14 to use, property, and the interest on debts owed to the
 15 corporation, to the extent such debts represent the
 16 price for which real property held primarily for sale
 17 to customers in the ordinary course of its trade or
 18 business was sold or exchanged by the corporation;
 19 but does not include amounts constituting personal hold-
 20 ing company income under subsection (a) (6), nor
 21 copyright royalties (as defined in subsection (a) (4)),
 22 nor produced film rents (as defined in subsection
 23 (a) (5) (B)).

24 “(4) ADJUSTED INCOME FROM MINERAL, OIL,
 25 AND GAS ROYALTIES.—The term ‘adjusted income from

1 mineral, oil, and gas royalties' means the gross income
 2 from such royalties, reduced by the amount subtracted
 3 under paragraph (2) (B) of this subsection in respect
 4 of such royalties."

5 (e) FOREIGN PERSONAL HOLDING COMPANY IN-
 6 COME AND STOCK OWNERSHIP.—Section 553 (relating to
 7 foreign personal holding company income) and section 554
 8 (relating to stock ownership) are amended to read as
 9 follows:

10 "SEC. 553. FOREIGN PERSONAL HOLDING COMPANY IN-
 11 COME.

12 "(a) FOREIGN PERSONAL HOLDING COMPANY IN-
 13 COME.—For purposes of this subtitle, the term 'foreign per-
 14 sonal holding company income' means that portion of the
 15 gross income, determined for purposes of section 552, which
 16 consists of:

17 "(1) DIVIDENDS, ETC.—Dividends, interest, royal-
 18 ties, and annuities. This paragraph shall not apply to
 19 a dividend distribution of divested stock (as defined in
 20 subsection (e) of section 1111) but only if the stock
 21 with respect to which the distribution is made was
 22 owned by the distributee on September 6, 1961, or was
 23 owned by the distributee for at least 2 years before
 24 the date on which the antitrust order (as defined in
 25 subsection (d) of section 1111) was entered.

1 “(2) STOCK AND SECURITIES TRANSACTIONS.—

2 Except in the case of regular dealers in stock or secu-
3 rities, gains from the sale or exchange of stock or
4 securities.

5 “(3) COMMODITIES TRANSACTIONS.—Gains from
6 futures transactions in any commodity on or subject to
7 the rules of a board of trade or commodity exchange.
8 This paragraph shall not apply to gains by a producer,
9 processor, merchant, or handler of the commodity which
10 arise out of bona fide hedging transactions reasonably
11 necessary to the conduct of its business in the manner in
12 which such business is customarily and usually con-
13 ducted by others.

14 “(4) ESTATES AND TRUSTS.—Amounts includible
15 in computing the taxable income of the corporation
16 under part I of subchapter J (sec. 641 and following,
17 relating to estates, trusts, and beneficiaries) ; and gains
18 from the sale or other disposition of any interest in an
19 estate or trust.

20 “(5) PERSONAL SERVICE CONTRACTS.—

21 “(A) Amounts received under a contract
22 under which the corporation is to furnish personal
23 services; if some person other than the corporation
24 has the right to designate (by name or by descrip-

1 tion) the individual who is to perform the services,
2 or if the individual who is to perform the services
3 is designated (by name or by description) in the
4 contract; and

5 “(B) amounts received from the sale or other
6 disposition of such a contract.

7 This paragraph shall apply with respect to amounts
8 received for services under a particular contract only if
9 at some time during the taxable year 25 percent or more
10 in value of the outstanding stock of the corporation is
11 owned, directly or indirectly, by or for the individual
12 who has performed, is to perform, or may be designated
13 (by name or by description) as the one to perform, such
14 services.

15 “(6) USE OF CORPORATION PROPERTY BY SHARE-
16 HOLDER.—Amounts received as compensation (however
17 designated and from whomsoever received) for the use of,
18 or right to use, property of the corporation in any case
19 where, at any time during the taxable year, 25 percent
20 or more in value of the outstanding stock of the corpora-
21 tion is owned, directly or indirectly, by or for an indi-
22 vidual entitled to the use of the property; whether such
23 right is obtained directly from the corporation or by

means of a sublease or other arrangement. This paragraph shall apply only to a corporation which has foreign personal holding company income for the taxable year, computed without regard to this paragraph and paragraph (7), in excess of 10 percent of its gross income.

“(7) RENTS.—Rents, unless constituting 50 percent or more of the gross income. For purposes of this paragraph, the term ‘rents’ means compensation, however designated, for the use of, or right to use, property; but does not include amounts constituting foreign personal holding company income under paragraph (6).

“(b) LIMITATION ON GROSS INCOME IN CERTAIN TRANSACTIONS.—For purposes of this part—

“(1) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a) (2) (relating to gains from stock and security transactions) shall include only the excess of gains over losses from such transactions, and

“(2) gross income and foreign personal holding company income determined with respect to transactions described in subsection (a) (3) (relating to gains from commodity transactions) shall include only the excess of gains over losses from such transactions.

1 **“SEC. 554. STOCK OWNERSHIP.**

2 “(a) **CONSTRUCTIVE OWNERSHIP.**—For purposes of de-
3 termining whether a corporation is a foreign personal holding
4 company, insofar as such determination is based on stock
5 ownership under section 552 (a) (2), section 553 (a) (5),
6 or section 553 (a) (6) —

7 “(1) **STOCK NOT OWNED BY INDIVIDUAL.**—Stock
8 owned, directly or indirectly, by or for a corporation,
9 partnership, estate, or trust shall be considered as being
10 owned proportionately by its shareholders, partners, or
11 beneficiaries.

12 “(2) **FAMILY AND PARTNERSHIP OWNERSHIP.**—
13 An individual shall be considered as owning the stock
14 owned, directly or indirectly, by or for his family or by
15 or for his partner. For purposes of this paragraph, the
16 family of an individual includes only his brothers and
17 sisters (whether by the whole or half blood), spouse,
18 ancestors, and lineal descendants.

19 “(3) **OPTIONS.**—If any person has an option to
20 acquire stock, such stock shall be considered as owned by
21 such person. For purposes of this paragraph, an option
22 to acquire such an option, and each one of a series of
23 such options, shall be considered as an option to acquire
24 such stock.

25 “(4) **APPLICATION OF FAMILY-PARTNERSHIP AND**

1 **OPTION RULES.**—Paragraphs (2) and (3) shall be
2 applied—

3 “(A) for purposes of the stock ownership
4 requirement provided in section 552 (a) (2), if, but
5 only if, the effect is to make the corporation a foreign
6 personal holding company;

7 “(B) for purposes of section 553 (a) (5)
8 (relating to personal service contracts) or of section
9 553 (a) (6) (relating to the use of property by
10 shareholders), if, but only if, the effect is to make
11 the amounts therein referred to includible under
12 such paragraph as foreign personal holding com-
13 pany income.

14 “(5) **CONSTRUCTIVE OWNERSHIP AS ACTUAL**
15 **OWNERSHIP.**—Stock constructively owned by a person
16 by reason of the application of paragraph (1) or (3)
17 shall, for purposes of applying paragraph (1) or (2),
18 be treated as actually owned by such person; but stock
19 constructively owned by an individual by reason of the
20 application of paragraph (2) shall not be treated as
21 owned by him for purposes of again applying such
22 paragraph in order to make another the constructive
23 owner of such stock.

24 “(6) **OPTION RULE IN LIEU OF FAMILY AND**
25 **PARTNERSHIP RULE.**—If stock may be considered as

1 owned by an individual under either paragraph (2)
2 or (3) it shall be considered as owned by him under
3 paragraph (3).

4 “(b) CONVERTIBLE SECURITIES.—Outstanding securi-
5 ties convertible into stock (whether or not convertible during
6 the taxable year) shall be considered as outstanding stock—

7 “(1) for purposes of the stock ownership require-
8 ment provided in section 552 (a) (2), but only if the
9 effect of the inclusion of all such securities is to make
10 the corporation a foreign personal holding company;

11 “(2) for purposes of section 553 (a) (5) (relating
12 to personal service contracts), but only if the effect of
13 the inclusion of all such securities is to make the amounts
14 therein referred to includible under such paragraph as
15 foreign personal holding company income; and

16 “(3) for purposes of section 553 (a) (6) (relating
17 to the use of property by shareholders), but only if the
18 effect of the inclusion of all such securities is to make the
19 amounts therein referred to includible under such para-
20 graph as foreign personal holding company income.

21 The requirement in paragraphs (1), (2), and (3) that all
22 convertible securities must be included if any are to be in-
23 cluded shall be subject to the exception that, where some of
24 the outstanding securities are convertible only after a later
25 date than in the case of others, the class having the earlier

1 conversion date may be included although the others are not
 2 included, but no convertible securities shall be included unless
 3 all outstanding securities having a prior conversion date are
 4 also included.”

5 (f) DIVIDENDS-PAID DEDUCTION.—

6 (1) Paragraph (2) of section 316 (b) (relating to
 7 special rules for dividend defined) is amended to read
 8 as follows:

9 “(2) DISTRIBUTIONS BY PERSONAL HOLDING COM-
 10 PANIES.—

11 “(A) In the case of a corporation which—

12 “(i) under the law applicable to the tax-
 13 able year in which the distribution is made, is a
 14 personal holding company (as defined in section
 15 542), or

16 “(ii) for the taxable year in respect of
 17 which the distribution is made under section 563
 18 (b) (relating to dividends paid after the close
 19 of the taxable year), or section 547 (relating
 20 to deficiency dividends), or the corresponding
 21 provisions of prior law, is a personal holding
 22 company under the law ~~applicable~~ applicable to such tax-
 23 able year,

24 the term ‘dividend’ also means any distribution of
 25 property (whether or not a dividend as defined in

1 subsection (a)) made by the corporation to its
 2 shareholders, to the extent of its undistributed per-
 3 sonal holding company income (determined under
 4 section 545 without regard to distributions under
 5 this paragraph) for such year.

6 “(B) For purposes of subparagraph (A), the
 7 term ‘distribution of property’ includes a distribu-
 8 tion in complete liquidation occurring within 24
 9 months after the adoption of a plan of liquidation,
 10 but—

11 “(i) only to the extent of the amounts dis-
 12 tributed to distributees other than corporate
 13 shareholders, and

14 “(ii) only to the extent that the corpora-
 15 tion designates such amounts as a dividend dis-
 16 tribution and duly notifies such distributees of
 17 such designation, under regulations prescribed
 18 by the Secretary or his delegate, but

19 “(iii) not in excess of the sum of such
 20 distributees’ allocable share of the undistributed
 21 personal holding company income for such
 22 year, computed without regard to this subpara-
 23 graph or section 562 (b).”

24 (2) Section 331 (b) (relating to nonapplication
 25 of section 301) is amended by inserting after “any

1 distribution of property” the phrase “(other than a
2 distribution referred to in paragraph (2) (B) of section
3 316 (b))”.

4 (3) Section 562 (b) (relating to distributions in
5 liquidation) is amended to read as follows:

6 “(b) DISTRIBUTIONS IN LIQUIDATION.—

7 “(1) Except in the case of a personal holding com-
8 pany described in section 542 or a foreign personal
9 holding company described in section 552,—

10 “(A) in the case of amounts distributed in
11 liquidation, the part of such distribution which is
12 properly chargeable to earnings and profits ac-
13 cumulated after February 28, 1913, shall be treated
14 as a dividend for purposes of computing the divi-
15 dends paid deduction, and

16 “(B) in the case of a complete liquidation
17 occurring within 24 months after the adoption of
18 a plan of liquidation, any distribution within such
19 period pursuant to such plan shall, to the extent of
20 the earnings and profits (computed without regard
21 to capital losses) of the corporation for the taxable
22 year in which such distribution is made, be treated
23 as a dividend for purposes of computing the divi-
24 dends paid deduction.

25 “(2) In the case of a complete liquidation of a per-

1 sonal holding company, occurring within 24 months
 2 after the adoption of a plan of liquidation, the amount
 3 of any distribution within such period pursuant to such
 4 plan shall be treated as a dividend for purposes of com-
 5 puting the dividends paid deduction, to the extent that
 6 such amount is distributed to corporate distributees and
 7 represents such corporate distributees' allocable share of
 8 the undistributed personal holding company income for
 9 the taxable year of such distribution computed without
 10 regard to this paragraph and without regard to sub-
 11 paragraph (B) of section 316 (b) (2)."

12 (4) Section 551 (b) (relating to amount included
 13 in gross income) is amended by striking out "received
 14 as a dividend" and inserting in lieu thereof "received as
 15 a dividend (determined as if any distribution in liquida-
 16 tion actually made in such taxable year had not been
 17 made)".

18 (g) ONE-MONTH LIQUIDATIONS.—Section 333 (relat-
 19 ing to election as to recognition of gain in certain liquida-
 20 tions) is amended by adding at the end thereof the following
 21 new subsection:

22 "(g) SPECIAL RULE.—

23 "(1) LIQUIDATIONS BEFORE JANUARY 1, 1966.—
 24 In the case of a liquidation occurring before January 1,
 25 1966, of a corporation referred to in paragraph (3) —

“(A) the date ‘December 31, 1953’ referred to in subsections (e) (2) and (f) (1) shall be treated as if such date were ‘December 31, 1962’, and

“(B) in the case of stock in such corporation held for more than 6 months, the term ‘a dividend’ as used in subsection (e) (1) shall be treated as if such term were ‘class B capital gain’.

Subparagraph (B) shall not apply to any earnings and profits to which the corporation succeeds after August 1, 1963, pursuant to any corporate reorganization or pursuant to any liquidation to which section 332 applies, except earnings and profits which on August 1, 1963, constituted earnings and profits of a corporation referred to in paragraph (3), and except earnings and profits which were earned after such date by a corporation referred to in paragraph (3).

“(2) LIQUIDATIONS AFTER DECEMBER 31, 1965.—

“(A) IN GENERAL.—In the case of a liquidation occurring after December 31, 1965, of a corporation to which this subparagraph applies—

“(i) the date ‘December 31, 1953’ referred to in subsections (e) (2) and (f) (1) shall be treated as if such date were ‘December 31, 1962’, and

1 “(ii) so much of the gain recognized under
2 subsection (e) (1) as is attributable to the
3 earnings and profits accumulated after Febru-
4 ary 28, 1913, and before January 1, 1966, shall,
5 in the case of stock in such corporation held for
6 more than 6 months, be treated as class B
7 capital gain, and only the remainder of such
8 gain shall be treated as a dividend.

9 Clause (ii) shall not apply to any earnings and
10 profits to which the corporation succeeds after
11 August 1, 1963, pursuant to any corporate reorgani-
12 zation or pursuant to any liquidation to which sec-
13 tion 332 applies, except earnings and profits which
14 on August 1, 1963, constituted earnings and profits
15 of a corporation referred to in paragraph (3), and
16 except earnings and profits which were earned after
17 such date by a corporation referred to in para-
18 graph (3).

19 “(B) CORPORATIONS TO WHICH APPLI-
20 CABLE.—Subparagraph (A) shall apply only with
21 respect to a corporation which is referred to in para-
22 graph (3) and which—

23 “(i) on August 1, 1963, owes qualified
24 indebtedness (as defined in section 545 (c)),

25 “(ii) before January 1, 1967, notifies the
26 Secretary or his delegate that it may wish to

1 have subparagraph (A) apply to it and submits
2 such information as may be required by regu-
3 lations prescribed by the Secretary or his dele-
4 gate, and

5 “(iii) liquidates before the close of the tax-
6 able year in which such corporation ceases to
7 owe such qualified indebtedness or (if earlier)
8 the taxable year referred to in subparagraph
9 (C).

10 “(C) ADJUSTED POST-1963 EARNINGS AND
11 PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In
12 the case of any corporation, the taxable year re-
13 ferred to in this subparagraph is the first taxable
14 year at the close of which its adjusted post-1963
15 earnings and profits equal or exceed the amount of
16 such corporation’s qualified indebtedness on August
17 1, 1963. For purposes of the preceding sentence,
18 the term ‘adjusted post-1963 earnings and profits’
19 means the sum of—

20 “(i) the earnings and profits of such cor-
21 poration for taxable years beginning after De-
22 cember 31, 1963, without diminution by reason
23 of any distributions made out of such earnings
24 and profits, and

25 “(ii) the deductions allowed for taxable
26 years beginning after December 31, 1963, for

1 exhaustion, wear and tear, obsolescence, or
2 amortization.

3 “(3) CORPORATIONS REFERRED TO.—For purposes
4 of paragraphs (1) and (2), a corporation referred to in
5 this paragraph is a corporation which for at least one of
6 the two most recent taxable years ending before the date
7 of the enactment of this subsection was not a personal
8 holding company under section 542, but would have been
9 a personal holding company under section 542 for such
10 taxable year if the law applicable for the first taxable
11 year beginning after December 31, 1963, had been
12 applicable to such taxable year.”

13 (h) EXCEPTION FOR CERTAIN CORPORATIONS.—

14 (1) GENERAL RULE.—Except as provided in para-
15 graph (2), in the case of a corporation referred to in
16 section 333 (g) (3) of the Internal Revenue Code of
17 1954 (as added by subsection (g) of this section), the
18 amendments made by this section (other than subsec-
19 tions (f) and (g)) shall not apply if there is a com-
20 plete liquidation of such corporation and if the distri-
21 bution of all the property under such liquidation occurs
22 before January 1, 1966.

23 (2) EXCEPTION.—Paragraph (1) shall not apply
24 to any liquidation to which section 332 of the Internal
25 Revenue Code of 1954 applies unless—

26 (A) the corporate distributee (referred to in

subsection (b) (1) of such section 332) in such liquidation is liquidated in a complete liquidation to which such section 332 does not apply, and

(B) the distribution of all the property under such liquidation occurs before the 91st day after the last distribution referred to in paragraph (1) and before January 1, 1966.

(i) DEDUCTION FOR AMORTIZATION OF INDEBTEDNESS.—

(1) Section 545 (a) (relating to definition of undistributed personal holding company income) is amended by striking out “subsection (b)” and inserting in lieu thereof “subsections (b) and (c)”.

(2) Section 545 is amended by adding at the end thereof the following new subsection:

“(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—

“(1) IN GENERAL.—Except as otherwise provided in this subsection, for purposes of subsection (a) there shall be allowed as a deduction amounts used, or amounts irrevocably set aside (to the extent reasonable with reference to the size and terms of the indebtedness), to pay or retire qualified indebtedness.

“(2) CORPORATIONS TO WHICH APPLICABLE.—

This subsection shall apply only with respect to a corporation—

“(A) which for at least one of the two most

1 recent taxable years ending before the date of
 2 the enactment of this subsection was not a per-
 3 sonal holding company under section 542, but would
 4 have been a personal holding company under sec-
 5 tion 542 for such taxable year if the law applicable
 6 for the first taxable year beginning after December
 7 31, 1963, had been applicable to such taxable year,
 8 or

9 “(B) to the extent that it succeeds to the de-
 10 duction referred to in paragraph (1) by reason of
 11 section 381 (c) (15).

12 “(3) QUALIFIED INDEBTEDNESS.—

13 “(A) IN GENERAL.—Except as otherwise pro-
 14 vided in this paragraph, for purposes of this sub-
 15 section the term ‘qualified indebtedness’ means—

16 “(i) the outstanding indebtedness incurred
 17 by the taxpayer after December 31, 1933, and
 18 before August 1, 1963, and

19 “(ii) the outstanding indebtedness incurred
 20 after July 31, 1963, for the purpose of making
 21 a payment or set-aside referred to in paragraph
 22 (1) in the same taxable year, but, in the case
 23 of such a payment or set-aside which is made on
 24 or after the first day of the first taxable year
 25 beginning after December 31, 1963, only to the
 26 extent the deduction otherwise allowed in para-

graph (1) with respect to such payment or set-aside is treated as nondeductible by reason of the election provided in paragraph (4).

“(B) EXCEPTION.—For purposes of subparagraph (A), qualified indebtedness does not include any amounts which were, at any time after July 31, 1963, and before the payment or set-aside, owed to a person who at such time owned (or was considered as owning within the meaning of section 318 (a)) more than 10 percent in value of the taxpayer’s outstanding stock.

“(C) REDUCTION FOR AMOUNTS IRREVOCABLY SET ASIDE.—For purposes of subparagraph (A), the qualified indebtedness with respect to a contract shall be reduced by amounts irrevocably set aside before the taxable year to pay or retire such indebtedness; and no deduction shall be allowed under paragraph (1) for payments out of amounts so set aside.

“(4) ELECTION NOT TO DEDUCT.—A taxpayer may elect, under regulations prescribed by the Secretary or his delegate, to treat as nondeductible an amount otherwise deductible under paragraph (1); but only if the taxpayer files such election on or before the 15th day of the third month following the close of the taxable

1 year with respect to which such election applies, designating therein the amounts which are to be treated as
 2 nondeductible and specifying the indebtedness (referred
 3 to in paragraph (3) (A) (ii)) incurred for the purpose
 4 of making the payment or set-aside.
 5

6 “(5) LIMITATIONS.—The deduction otherwise allowed by this subsection for the taxable year shall be
 7 reduced by the sum of—
 8

9 “(A) the amount, if any, by which—

10 “(i) the deductions allowed for the taxable
 11 year and all preceding taxable years beginning
 12 after December 31, 1963, for exhaustion, wear
 13 and tear, obsolescence, or amortization (other
 14 than such deductions which are disallowed in
 15 computing undistributed personal holding company
 16 income under subsection (b) (8)), exceed

17 “(ii) any reduction, by reason of this
 18 subparagraph, of the deductions otherwise allowed
 19 by this subsection for such preceding
 20 taxable years, and

21 “(B) the amount, if any, by which—

22 “(i) the deductions allowed under subsection
 23 (b) (5) in computing undistributed personal holding
 24 company income for the taxable
 25 year and all preceding taxable years beginning
 26 after December 31, 1963, exceed

“ (ii) any reduction, by reason of this subparagraph, of the deductions otherwise allowed by this subsection for such preceding taxable years.

“(6) PRO-RATA REDUCTION IN CERTAIN CASES.—For purposes of paragraph (3) (A), if property (of a character which is subject to the allowance for exhaustion, wear and tear, obsolescence, or amortization) is disposed of after July 31, 1963, the total amounts of qualified indebtedness of the taxpayer shall be reduced pro-rata in the taxable year of such disposition by the amount, if any, by which—

“(A) the adjusted basis of such property at the time of such disposition, exceeds

“(B) the amount of qualified indebtedness which ceased to be qualified indebtedness with respect to the taxpayer by reason of the assumption of the indebtedness by the transferee.”

(3) Paragraph (15) of section 381 (c) (relating to carryovers in certain corporate acquisitions) is amended to read as follows:

“(15) INDEBTEDNESS OF CERTAIN PERSONAL HOLDING COMPANIES.—The acquiring corporation shall be considered to be the distributor or transferor corporation for the purpose of determining the applicability of subsections (b) (7) and (c) of section 545, relating to

1 deduction with respect to payment of certain indebted-
2 ness.”

3 (j) INCREASE IN BASIS WITH RESPECT TO CERTAIN
4 FOREIGN PERSONAL HOLDING COMPANY HOLDINGS.—

5 (1) IN GENERAL.—Part II of subchapter O of
6 chapter 1 (relating to basis rules of general application)
7 is amended by redesignating section 1022 as section
8 1023 and by inserting after section 1021 the following
9 new section:

10 “SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CER-
11 TAIN FOREIGN PERSONAL HOLDING COM-
12 PANY HOLDINGS.

13 “(a) GENERAL RULE.—The basis (determined under
14 section 1014 (b) (5), relating to basis of stock or securities
15 in a foreign personal holding company) of a share of stock
16 or a security, acquired from a decedent dying after August
17 15, 1963, of a corporation which was a foreign personal
18 holding company for its most recent taxable year ending
19 before the date of the enactment of this section shall be in-
20 creased by its proportionate share of any Federal estate tax
21 attributable to the net appreciation in value of all of such
22 shares and securities determined as provided in this section.

23 “(b) PROPORTIONATE SHARE.—For purposes of sub-
24 section (a), the proportionate share of a share of stock or of
25 a security is that amount which bears the same ratio to the
26 aggregate increase determined under subsection (c) (2) as

1 the appreciation in value of such share or security bears to
2 the aggregate appreciation in value of all such shares and
3 securities having appreciation in value.

4 “(c) SPECIAL RULES AND DEFINITIONS.—For pur-
5 poses of this section—

6 “(1) FEDERAL ESTATE TAX.—The term ‘Federal
7 estate tax’ means only the tax imposed by section 2001
8 or 2101, reduced by any credit allowable with respect
9 to a tax on prior transfers by section 2013 or 2102.

10 “(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO
11 NET APPRECIATION IN VALUE.—The Federal estate tax
12 attributable to the net appreciation in value of all shares
13 of stock and securities to which subsection (a) applies
14 is that amount which bears the same ratio to the Federal
15 estate tax as the net appreciation in value of all of such
16 shares and securities bears to the value of the gross estate
17 as determined under chapter 11 (including section 2032,
18 relating to alternative valuation).

19 “(3) NET APPRECIATION.—The net appreciation in
20 value of all shares and securities to which subsection (a)
21 applies is the amount by which the fair market value of
22 all such shares and securities exceeds the basis of such
23 property in the hands of the decedent.

24 “(4) FAIR MARKET VALUE.—For purposes of this
25 section, the term ‘fair market value’ means fair market

1 value determined under chapter 11 (including section
2 2032, relating to alternate valuation).

3 “(d) LIMITATIONS.—This section shall not apply to
4 any foreign personal holding company referred to in section
5 342 (a) (2).”

6 (2) AMENDMENT OF SECTION 1016(a).—Section
7 1016 (a) (relating to adjustments to basis) is amended
8 by striking out the period at the end thereof and by
9 inserting in lieu thereof a semicolon and by adding at
10 the end thereof the following new paragraph:

11 “(21) to the extent provided in section 1022, re-
12 lating to increase in basis for certain foreign personal
13 holding company holdings, or in section 216 (j) (4) of
14 the Revenue Act of 1963.”

15 (3) CLERICAL AMENDMENTS.—

16 (A) The table of sections for part II of sub-
17 chapter O of chapter 1 is amended by striking
18 out

“Sec. 1022. Cross references.”

19 and inserting in lieu thereof the following:

“Sec. 1022. Increase in basis with respect to certain foreign
personal holding company holdings.

“Sec. 1023. Cross references.”

20 (4) ONE-MONTH LIQUIDATIONS.—If—

21 (A) a corporation was a foreign personal
22 holding company for its most recent taxable year

1 ending before the date of the enactment of this
2 Act,

3 (B) all of the stock of such corporation is
4 owned on August 15, 1963, and at the time of
5 liquidation, by individuals and estates, and

6 (C) the transfer of all the property under the
7 liquidation occurs within one of the first 4 calendar
8 months ending after such date of enactment,

9 then such corporation shall be treated as a domestic
10 corporation for purposes of section 333 of the Internal
11 Revenue Code of 1954 (relating to 1-month liquida-
12 tions), and shall be treated as a foreign corporation for
13 purposes of section 367 of such Code (relating to foreign
14 corporations). In applying such section 367 for pur-
15 poses of this paragraph, references in the first sentence of
16 such section 367 to other sections of such Code shall be
17 treated as including a reference to such section 333.

18 (5) BASIS OF CERTAIN PROPERTY ACQUIRED FROM
19 A DECEDENT.—

20 (A) In the case of property described in sub-
21 paragraph (B) acquired from a decedent or passing
22 from a decedent (within the meaning of section
23 1014 (b) of the Internal Revenue Code of 1954),
24 the basis shall (in lieu of being the basis provided
25 by section 1014 of such Code) be the basis immedi-

1 ately before the death of the decedent, increased
2 by the amount of any Federal estate tax attributable
3 to the net appreciation in value of such property
4 (determined in accordance with section 1022 of such
5 Code as if such property were stock and securities
6 referred to in such section) .

7 (B) Subparagraph (A) shall apply to—

8 (i) property which the decedent received
9 as a qualified electing shareholder, and

10 (ii) property the basis of which (without
11 the application of this paragraph) is a sub-
12 stituted basis (as defined in section 1016(b)
13 of the Internal Revenue Code of 1954) deter-
14 mined by reference to the basis of such property
15 or other property received by any individual or
16 estate as a qualified electing shareholder.

17 For purposes of this subparagraph, property shall
18 be treated as property received as a qualified elect-
19 ing shareholder if, with respect to such property, the
20 recipient was a qualified electing shareholder (within
21 the meaning of section 333 (c) of such Code) in
22 a corporate liquidation to which section 333 of
23 such Code applied by reason of paragraph (4) of
24 this subsection.

25 (C) In the case of property acquired from the

1 decedent by gift, the increase in basis under this
 2 paragraph shall not exceed the amount by which
 3 the increase under this paragraph is greater than
 4 the increase allowable under section 1015 (d) of the
 5 Internal Revenue Code of 1954.

6 (6) LIMITATIONS.—The provisions of paragraphs
 7 (4) and (5) of this subsection shall not apply to any
 8 foreign corporation referred to in section 342 (a) (2)
 9 of the Internal Revenue Code of 1954.

10 (7) MEANING OF TERMS.—Terms used in para-
 11 graphs (4) through (6) of this subsection shall have
 12 the same meaning as when used in chapter 1 of the
 13 Internal Revenue Code of 1954.

14 (k) TECHNICAL AMENDMENTS.—

15 (1) Section 542 (b) (relating to corporations filing
 16 consolidated returns) is amended by striking out “gross
 17 income” each place it appears and inserting in lieu
 18 thereof “adjusted ordinary gross income”.

19 (2) Section 543 (relating to personal holding com-
 20 pany income) is amended by striking out subsection
 21 (d) (relating to special adjustment on disposition of
 22 antitrust stock received as a dividend).

23 (3) Section 544 (relating to rules for determining
 24 stock ownership) is amended—

25 (A) by striking out “section 543 (a) (5)” each

1 place it appears and inserting in lieu thereof "section
2 543 (a) (7)", and

3 (B) by striking out "section 543 (a) (9)" each
4 place it appears and inserting in lieu thereof "section
5 543 (a) (4)".

6 (4) REAL ESTATE INVESTMENT TRUSTS.—Para-
7 graph (6) of section 856 (a) (relating to definition of
8 real estate investment trust) is amended by striking out
9 "gross income" and inserting in lieu thereof "adjusted
10 ordinary gross income (as defined in section 543
11 (b) (2))".

12 (5) UNINCORPORATED BUSINESS ENTERPRISES
13 ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—
14 Section 1361 (i) (relating to personal holding company
15 income) is amended to read as follows:

16 "(i) PERSONAL HOLDING COMPANY INCOME.—

17 "(1) EXCLUDED FROM INCOME OF ENTERPRISE.—
18 There shall be excluded from the gross income of the
19 enterprise as to which an election has been made under
20 subsection (a) any item of gross income (computed
21 without regard to the adjustments provided in section
22 543 (b) (3) or (4)) if, but for this paragraph, such
23 item (adjusted, where applicable, as provided in section
24 543 (b) (3) or (4)) would constitute personal holding

1 company income (as defined in section 543 (a)) of such
2 enterprise.

3 “(2) INCOME AND DEDUCTIONS OF OWNERS.—

4 Items excluded from the gross income of the enter-
5 prise under paragraph (1), and the expenses attribut-
6 able thereto, shall be treated as the income and deduc-
7 tions of the proprietor or partners (in accordance with
8 their distributive shares of partnership income) of such
9 enterprise.

10 “(3) DISTRIBUTIONS.—If—

11 “(A) the amount excluded from gross income
12 under paragraph (2) exceeds the expenses at-
13 tributable thereto, and

14 “(B) any portion of such excess is distributed
15 to the proprietor or partner during the year earned,
16 such portion shall not be taxed as a corporate distribu-
17 tion. The portion of such excess not distributed during
18 such year shall be considered as paid-in surplus or as
19 a contribution to capital as of the close of such year.”

20 (6) ASSESSMENT AND COLLECTION OF PERSONAL
21 HOLDING COMPANY TAX.—Section 6501 (f) (relating
22 to personal holding company tax) is amended by
23 striking out “gross income, described in section
24 543 (a),” and inserting in lieu thereof “gross income

1 and adjusted ordinary gross income, described in section
2 543.”.

3 (1) EFFECTIVE DATES.—

4 (1) The amendments made by this section (other
5 than by subsections (c) (1), (f), (g), and (j)) shall
6 apply to taxable years beginning after December 31,
7 1963.

8 (2) The amendment made by subsection (c) (1)
9 shall apply to taxable years beginning after October 16,
10 1962.

11 (3) The amendments made by subsections (f) and
12 (g) shall apply to distributions made in any taxable
13 year of the distributing corporation beginning after De-
14 cember 31, 1963.

15 (4) The amendments made by paragraphs (1),
16 (2), and (3) of subsection (j) shall apply in respect
17 of decedents dying after August 15, 1963.

18 (5) Subsection (h) shall apply to taxable years
19 beginning after December 31, 1963.

1 SEC. 217. TREATMENT OF PROPERTY IN CASE OF OIL AND
2 GAS WELLS.

3 (a) IN GENERAL.—Section 614 (b) (relating to special
4 rule as to operating mineral interests) is amended to read as
5 follows:

6 “(b) SPECIAL RULES AS TO OPERATING MINERAL
7 INTERESTS IN OIL AND GAS WELLS.—In the case of oil
8 and gas wells—

9 “(1) IN GENERAL.—Except as otherwise provided
10 in this subsection—

11 “(A) all of the taxpayer’s operating mineral
12 interests in a separate tract or parcel of land shall
13 be combined and treated as one property, and

14 “(B) the taxpayer may not combine an operat-
15 ing mineral interest in one tract or parcel of land
16 with an operating mineral interest in another tract
17 or parcel of land.

18 “(2) ELECTION TO TREAT OPERATING MINERAL
19 INTERESTS AS SEPARATE PROPERTIES.—If the tax-

1 payer has more than one operating mineral interest in
 2 a single tract or parcel of land, he may elect to treat
 3 one or more of such operating mineral interests as
 4 separate properties. The taxpayer may not have more
 5 than one combination of operating mineral interests in
 6 a single tract or parcel of land. If the taxpayer makes
 7 the election provided in this paragraph with respect to
 8 any interest in a tract or parcel of land, each operating
 9 mineral interest which is discovered or acquired by the
 10 taxpayer in such tract or parcel of land after the taxable
 11 year for which the election is made shall be treated—

12 “(A) if there is no combination of interests in
 13 such tract or parcel, as a separate property unless
 14 the taxpayer elects to combine it with another in-
 15 terest, or

16 “(B) if there is a combination of interests in
 17 such tract or parcel, as part of such combination
 18 unless the taxpayer elects to treat it as a separate
 19 property.

20 “(3) CERTAIN UNITIZATION OR POOLING AR-
 21 RANGEMENTS.—

22 “(A) IN GENERAL.—Under regulations pre-
 23 scribed by the Secretary or his delegate, if one or
 24 more of the taxpayer’s operating mineral interests
 25 participate, under a voluntary or compulsory

unitization or pooling agreement, in a single co-operative or unit plan of operation, then for the period of such participation—

“(i) they shall be treated for all purposes of this subtitle as one property, and

“(ii) the application of paragraphs (1), (2), and (4) in respect of such interests shall be suspended.

“(B) LIMITATION.—Subparagraph (A) shall apply to a voluntary agreement only if all the operating mineral interests covered by such agreement—

“(i) are in the same deposit, or are in 2 or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and

“(ii) are in tracts or parcels of land which are contiguous or in close proximity.

“(C) SPECIAL RULE IN THE CASE OF ARRANGEMENTS ENTERED INTO IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—If—

“(i) two or more of the taxpayer's operating mineral interests participate under a voluntary or compulsory unitization or pooling

1 agreement entered into in any taxable year
2 beginning before January 1, 1964, in a single
3 cooperative or unit plan of operation,

4 “(ii) the taxpayer, for the last taxable
5 year beginning before January 1, 1964, treated
6 such interests as two or more separate prop-
7 erties, and

8 “(iii) it is determined that such treatment
9 was proper under the law applicable to such
10 taxable year,

11 such taxpayer may continue to treat such interests
12 in a consistent manner for the period of such par-
13 ticipation.

14 “(4) MANNER, TIME, AND SCOPE OF ELECTION.—

15 “(A) MANNER AND TIME.—Any election pro-
16 vided in paragraph (2) shall be made for each
17 operating mineral interest, in the manner prescribed
18 by the Secretary or his delegate by regulations, not
19 later than the time prescribed by law for filing the
20 return (including extensions thereof) for whichever
21 of the following taxable years is the later: The first
22 taxable year beginning after December 31, 1963,
23 or the first taxable year in which any expenditure

1 for development or operation in respect of such oper-
2 ating mineral interest is made by the taxpayer after
3 the acquisition of such interest.

4 “(B) SCOPE.—Any election under paragraph
5 (2) shall be for all purposes of this subtitle and
6 shall be binding on the taxpayer for all subsequent
7 taxable years.

8 “(5) TREATMENT OF CERTAIN PROPERTIES.—If,
9 on the day preceding the first day of the first taxable
10 year beginning after December 31, 1963, the taxpayer
11 has any operating mineral interests which he treats
12 under subsection (d) of this section (as in effect before
13 the amendments made by the Revenue Act of 1963),
14 such treatment shall be continued and shall be deemed
15 to have been adopted pursuant to paragraphs (1) and
16 (2) of this subsection (as amended by such Act).”

17 (b) TECHNICAL AMENDMENTS.—

18 (1) The heading of section 614 (c) is amended to
19 read as follows:

20 “(c) SPECIAL RULES AS TO OPERATING MINERAL
21 INTERESTS IN MINES.—”

22 (2) Paragraph (5) of section 614 (c) is hereby
23 repealed.

1 (3) Section 614 (d) is amended to read as follows:

2 “(d) OPERATING MINERAL INTERESTS DEFINED.—

3 For purposes of this section, the term ‘operating mineral in-
4 terest’ includes only an interest in respect of which the costs
5 of production of the mineral are required to be taken into
6 account by the taxpayer for purposes of computing the 50
7 percent limitation provided for in section 613, or would be
8 so required if the mine, well, or other natural deposit were in
9 the production stage.”

10 (4) Section 614 (e) (2) is amended by striking
11 out “within the meaning of subsection (b) (3)”.

12 (c) ALLOCATION OF BASIS IN CERTAIN CASES.—For
13 purposes of the Internal Revenue Code of 1954—

14 (1) FAIR MARKET VALUE RULE.—Except as pro-
15 vided in paragraph (2), if a taxpayer has a section
16 614 (b) aggregation, then the adjusted basis (as of the
17 first day of the first taxable year beginning after Decem-
18 ber 31, 1963) of each property included in such aggre-
19 gation shall be determined by multiplying the adjusted
20 basis of the aggregation by a fraction—

21 (A) the numerator of which is the fair market
22 value of such property, and

23 (B) the denominator of which is the fair mar-
24 ket value of such aggregation.

25 For purposes of this paragraph, the adjusted basis and

1 the fair market value of the aggregation, and the fair
2 market value of each property included therein, shall
3 be determined as of the day preceding the first day of
4 the first taxable year which begins after December
5 31, 1963.

6 (2) ALLOCATION OF ADJUSTMENTS, ETC.—If the
7 taxpayer makes an election under this paragraph with
8 respect to any section 614(b) aggregation, then the
9 adjusted basis (as of the first day of the first taxable year
10 beginning after December 31, 1963) of each property
11 included in such aggregation shall be the adjusted basis
12 of such property at the time it was first included in the
13 aggregation by the taxpayer, adjusted for that portion of
14 those adjustments to the basis of the aggregation which
15 are reasonably attributable to such property. If, under
16 the preceding sentence, the total of the adjusted bases of
17 the interests included in the aggregation exceeds the
18 adjusted basis of the aggregation (as of the day preced-
19 ing the first day of the first taxable year which begins
20 after December 31, 1963), the adjusted bases of the
21 properties which include such interests shall be adjusted,
22 under regulations prescribed by the Secretary of the
23 Treasury or his delegate, so that the total of the ad-
24 justed bases of such interests equals the adjusted basis
25 of the aggregation. An election under this paragraph

1 shall be made at such time and in such manner as the
2 Secretary of the Treasury or his delegate shall by regu-
3 lations prescribe.

4 (3) DEFINITIONS.—For purposes of this subsec-
5 tion—

6 (A) SECTION 614(b) AGGREGATION.—The
7 term “section 614 (b) aggregation” means any ag-
8 gregation to which section 614 (b) (1) (A) of the
9 Internal Revenue Code of 1954 (as in effect before
10 the amendments made by subsection (a) of this
11 section) applied for the day preceding the first day
12 of the first taxable year beginning after December
13 31, 1963.

14 (B) PROPERTY.—The term “property” has the
15 same meaning as is applicable, under section 614
16 of the Internal Revenue Code of 1954, to the tax-
17 payer for the first taxable year beginning after
18 December 31, 1963.

19 (d) EFFECTIVE DATE.—The amendments made by sub-
20 sections (a) and (b) shall apply to taxable years beginning
21 after December 31, 1963.

1 SEC. 218. TREATMENT OF CERTAIN IRON ORE ROYALTIES.

2 (a) IN GENERAL.—

3 (1) AMENDMENT OF SECTION 631(c).—Section
4 631 (c) (relating to disposal of coal with a retained eco-
5 nomic interest) is amended—

6 (A) by striking out the heading and inserting
7 in lieu thereof the following:

8 “(c) DISPOSAL OF COAL OR IRON ORE WITH A RE-
9 TAINED ECONOMIC INTEREST.—”;

10 (B) by inserting “or iron ore” after “coal (in-
11 cluding lignite)”; and

12 (C) by inserting “or iron ore” after “coal”
13 each other place it appears in section 631 (c).

14 (2) AMENDMENT OF SECTION 1231(b).—Section
15 1231 (b) (2) (defining property used in the trade or
16 business) is amended to read as follows:

17 “(2) TIMBER, COAL, OR IRON ORE.—Such term in-
18 cludes timber, coal, and iron ore with respect to which
19 section 631 applies.”

20 (3) AMENDMENT OF SECTION 272.—The text of

1 section 272 (relating to disposal of coal) is amended by
 2 inserting "or iron ore" after "coal" each place it appears.

3 (b) CLERICAL AMENDMENTS.—

4 (1) the heading of section 631 is amended to read
 5 as follows:

6 **"SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL,**
 7 **OR IRON ORE."**

8 (2) The table of sections for part III of subchapter
 9 I of chapter 1 is amended by striking out

"Sec. 631. Gain or loss in the case of timber or coal."

10 and inserting in lieu thereof the following:

"Sec. 631. Gain or loss in the case of timber, coal, or iron
 ore."

11 (3) The heading of section 272 is amended to read
 12 as follows:

13 **"SEC. 272. DISPOSAL OF COAL OR IRON ORE."**

14 (4) The table of sections for part IX of subchapter
 15 B of chapter 1 is amended by striking out

"Sec. 272. Disposal of coal."

16 and inserting in lieu thereof the following:

"Sec. 272. Disposal of coal or iron ore."

17 (5) Section 1016 (a) (15) is amended by inserting
 18 "or iron ore" after "coal".

19 (6) Section 1402 (a) (3) (B) is amended to read
 20 as follows:

“(B) from the cutting of timber, or the disposal of timber, coal, or iron ore, if section 631 applies to such gain or loss, or”

(c) **EFFECTIVE DATE.**—The amendments made by this section shall apply to iron ore mined in taxable years beginning after December 31, 1963.

SEC. 219. CAPITAL GAINS AND LOSSES.

(a) **ALTERNATIVE TAX, ETC.**—

(1) **IN GENERAL.**—

(A) **ALTERNATIVE TAX.**—Subsection (b) of section 1201 (relating to alternative tax on taxpayers other than corporations) is amended to read as follows:

“(b) **OTHER TAXPAYERS.**—If, for any taxable year, a taxpayer (other than a corporation) is allowed a deduction under section 1202, then, in lieu of the tax imposed by sections 1 and 511 (b), there is hereby imposed a tax (if such a tax is less than the tax imposed by such sections) which shall consist of the sum of—

“(1) a partial tax computed on the taxable income reduced by an amount equal to the sum of—

“(A) 40 percent of the adjusted class A capital gain, and

1 “(B) 50 percent of the adjusted class B capital
2 gain,

3 plus

4 “(2) an amount equal to the sum of—

5 “(A) 21 percent of the adjusted class A
6 capital gain, and

7 “(B) 25 percent of the adjusted class B capital
8 gain.”

9 (B) DEDUCTION FOR CAPITAL GAINS.—Sec-
10 tion 1202 (relating to deduction for capital gains)
11 is amended to read as follows:

12 **“SEC. 1202. DEDUCTION FOR CAPITAL GAINS.**

13 “(a) GENERAL RULE.—In the case of a taxpayer other
14 than a corporation, a deduction from gross income shall
15 be allowed equal to the sum of—

16 “(1) 60 percent of the adjusted class A capital
17 gain, and

18 “(2) 50 percent of the adjusted class B capital
19 gain.

20 “(b) SPECIAL RULE.—In the case of an estate or trust,
21 the deduction allowable under subsection (a) shall be com-
22 puted by excluding the portion (if any), of the gains for
23 the taxable year from sales or exchanges of capital assets,
24 which, under sections 652 and 662 (relating to inclusions
25 of amounts in gross income of beneficiaries of trusts), is

1 includible by the income beneficiaries as gain derived from
2 the sale or exchange of capital assets.”

3 (C) DEFINITIONS.—Section 1222 (relating to
4 other terms relating to capital gains and losses) is
5 amended to read as follows:

6 “SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS
7 AND LOSSES.

8 “(a) TERMS APPLICABLE TO ALL TAXPAYERS.—For
9 purposes of this subtitle—

10 “(1) SHORT-TERM CAPITAL GAIN.—The term
11 ‘short-term capital gain’ means gain from the sale or
12 exchange of a capital asset held for not more than 6
13 months, if and to the extent such gain is taken into ac-
14 count in computing gross income.

15 “(2) SHORT-TERM CAPITAL LOSS.—The term
16 ‘short-term capital loss’ means loss from the sale or
17 exchange of a capital asset held for not more than 6
18 months, if and to the extent that such loss is taken into
19 account in computing taxable income.

20 “(3) NET SHORT-TERM CAPITAL GAIN.—The term
21 ‘net short-term capital gain’ means the excess of short-
22 term capital gains for the taxable year over the short-
23 term capital losses for such year.

24 “(4) NET SHORT-TERM CAPITAL LOSS.—The term
25 ‘net short-term capital loss’ means the excess of short-

1 term capital losses for the taxable year over the short-
 2 term capital gains for such year.

3 “(b) TERMS APPLICABLE TO CORPORATIONS.—For
 4 purposes of this subtitle, in the case of a corporation—

5 “(1) LONG-TERM CAPITAL GAIN.—The term ‘long-
 6 term capital gain’ means gain from the sale or exchange
 7 of a capital asset held for more than 6 months, if and to
 8 the extent such gain is taken into account in computing
 9 gross income.

10 “(2) LONG-TERM CAPITAL LOSS.—The term ‘long-
 11 term capital loss’ means loss from the sale or exchange
 12 of a capital asset held for more than 6 months, if and to
 13 the extent that such loss is taken into account in com-
 14 puting taxable income.

15 “(3) NET LONG-TERM CAPITAL GAIN.—The term
 16 ‘net long-term capital gain’ means the excess of long-
 17 term capital gains for the taxable year over the long-
 18 term capital losses for such year.

19 “(4) NET LONG-TERM CAPITAL LOSS.—The term
 20 ‘net long-term capital loss’ means the excess of long-
 21 term capital losses for the taxable year over the long-
 22 term capital gains for such year.

23 “(5) NET CAPITAL GAIN.—The term ‘net capital
 24 gain’ means the excess of the gains from sales or ex-

1 changes of capital assets over the losses from such sales
2 or exchanges.

3 “(6) NET CAPITAL LOSS.—The term ‘net capital
4 loss’ means the excess of the losses from sales or ex-
5 changes of capital assets over the sum allowed under
6 section 1211 (a). For purposes of determining losses
7 under this paragraph, amounts which are short-term
8 capital losses under section 1212 shall be excluded.

9 “(c) TERMS APPLICABLE TO TAXPAYERS OTHER
10 THAN CORPORATIONS.—For purposes of this subtitle, in the
11 case of a taxpayer other than a corporation—

12 “(1) CLASS B CAPITAL GAIN.—The term ‘class
13 B capital gain’ means gain from the sale or exchange of
14 a capital asset held for more than 6 months but not
15 more than 2 years, if and to the extent such gain is
16 taken into account in computing gross income.

17 “(2) CLASS B CAPITAL LOSS.—The term ‘class B
18 capital loss’ means loss from the sale or exchange of a
19 capital asset held for more than 6 months but not more
20 than 2 years, if and to the extent that such loss is taken
21 into account in computing taxable income.

22 “(3) CLASS A CAPITAL GAIN.—The term ‘class A
23 capital gain’ means gain from the sale or exchange of a
24 capital asset held for more than 2 years, if and to the

1 extent such gain is taken into account in computing
2 gross income.

3 “(4) CLASS A CAPITAL LOSS.—The term ‘class A
4 capital loss’ means loss from the sale or exchange of
5 a capital asset held for more than 2 years, if and to
6 the extent that such loss is taken into account in com-
7 puting taxable income.

8 “(5) NET CLASS B CAPITAL GAIN.—The term ‘net
9 class B capital gain’ means the excess of class B capital
10 gains for the taxable year over the class B capital losses
11 for such year.

12 “(6) NET CLASS B CAPITAL LOSS.—The term ‘net
13 class B capital loss’ means the excess of class B capital
14 losses for the taxable year over the class B capital gains
15 for such year.

16 “(7) NET CLASS A CAPITAL GAIN.—The term
17 ‘net class A capital gain’ means the excess of class A
18 capital gains for the taxable year over the class A capital
19 losses for such year.

20 “(8) NET CLASS A CAPITAL LOSS.—The term ‘net
21 class A capital loss’ means the excess of class A capital
22 losses for the taxable year over the class A capital gains
23 for such year.

24 “(9) ADJUSTED CLASS B CAPITAL GAIN.—The

1 term 'adjusted class B capital gain' means the net class
2 B capital gain for the taxable year reduced by losses
3 which reduce such net gain as provided in subsection
4 (d).

5 “(10) ADJUSTED CLASS A CAPITAL GAIN.—The
6 term 'adjusted class A capital gain' means the net class
7 A capital gain for the taxable year reduced by losses
8 which reduce such net gain as provided in subsection
9 (d).

10 “(d) RULES FOR REDUCING NET CAPITAL GAINS BY
11 CAPITAL LOSSES.—For purposes of paragraphs (9) and
12 (10) of subsection (c) and for purposes of reducing any net
13 short-term capital gain, if for a taxable year a taxpayer
14 (other than a corporation) has a net short-term, net class
15 B, or net class A capital loss, such loss shall reduce any net
16 short-term, net class B, or net class A capital gain for such
17 year by applying paragraph (1), then paragraph (2), and
18 then paragraph (3):

19 “(1) A net class A capital loss shall reduce first
20 any net class B capital gain and then any net short-
21 term capital gain.

22 “(2) A net class B capital loss shall reduce first
23 any net class A capital gain and then any net short-term
24 capital gain.

1 “(3) A net short-term capital loss shall reduce
2 first any net class B capital gain and then any net class
3 A capital gain.”

4 (2) PROPERTY USED IN THE TRADE OR BUSINESS
5 AND INVOLUNTARY CONVERSIONS.—

6 (A) Subsection (a) of section 1231 (relating
7 to property used in a trade or business) is amended
8 to read as follows:

9 “(a) GENERAL RULE.—If, during the taxable year—

10 “(1) the recognized gains from sales or exchanges
11 of property used in the trade or business, plus

12 “(2) the recognized gains from the compulsory or
13 involuntary conversion (as a result of destruction, in
14 whole or in part, theft or seizure, or an exercise of
15 the power of requisition or condemnation or the threat
16 or imminence thereof) of property used in the trade or
17 business and of capital assets held for more than 6
18 months into other property or money,

19 exceed the recognized losses from such sales, exchanges, and
20 conversions, each such gain or loss shall be considered as gain
21 or loss from the sale or exchange of a capital asset. If such
22 gains do not exceed such losses, such gains and losses shall
23 not be considered as gains and losses from sales or exchanges
24 of capital assets.”

(B) Section 1231 is amended by adding at the end thereof the following new subsection:

“(c) SPECIAL RULES.—

“(1) GAINS AND LOSSES TAKEN INTO ACCOUNT.—

For purposes of subsection (a) —

“(A) Any gain described in subsection (a) shall be included—

“(i) only if and to the extent taken into account in computing gross income, and

“(ii) only to the extent not required (by any provision of this subtitle other than this section) to be treated as gain from the sale or exchange of property which is neither a capital asset nor property described in this section.

“(B) Losses described in subsection (a) shall be included only if and to the extent taken into account in computing taxable income, except that section 1211 shall not apply.

“(C) Losses upon the destruction, in whole or in part, theft or seizure, or requisition or condemnation of property used in the trade or business and held for more than 6 months, or of a capital asset held for more than 6 months, shall be considered losses from a compulsory or involuntary conversion.

1 “(2) CERTAIN LOSSES FROM CASUALTY OR
 2 THEFT.—In the case of any property used in the trade
 3 or business, and in the case of any capital asset held for
 4 more than 6 months and held for the production of
 5 income, subsection (a) shall not apply to any loss, in
 6 respect of which the taxpayer is not compensated for
 7 by insurance in any amount, arising from fire, storm,
 8 shipwreck, or other casualty or from theft.

9 “(3) GAINS AND LOSSES TREATED AS CLASS B
 10 GAINS AND LOSSES.—In the case of a taxpayer other
 11 than a corporation, gain or loss—

12 “(A) from a sale, exchange, or conversion of
 13 property to which subsection (b) (2), (3), or
 14 (4) applies, and

15 “(B) which by reason of subsection (a) is
 16 considered as gain or loss from the sale or exchange
 17 of a capital asset,

18 shall be considered as class B capital gain or loss whether
 19 or not such property was held for more than 2 years.”

20 (3) CERTAIN DISTRIBUTIONS UNDER EMPLOYEES’
 21 TRUSTS AND ANNUITY PLANS.—

22 (A) DISTRIBUTION UNDER EMPLOYEES’
 23 TRUSTS.—Section 402 (a) (relating to taxability of
 24 beneficiary of exempt trust) is amended—

25 (i) by adding at the end of paragraph (1)

1 the following new sentence: "Any gain on the
2 subsequent sale or other disposition of any
3 such security by the distributee (or by any
4 other person in whose hands the basis of such
5 security is determined by reference to the basis
6 of the security in the hands of the distributee)
7 shall, to the extent of the amount of such net
8 unrealized appreciation attributable to such
9 security, be considered a gain from the sale
10 or exchange of a capital asset held for more than
11 6 months but not more than 2 years.";

12 (ii) by adding immediately before the pe-
13 riod at the end of the first sentence of paragraph
14 (2) the words "but not more than 2 years";
15 and

16 (iii) by adding immediately before the last
17 sentence of paragraph (2) the following new
18 sentence: "Any gain on the subsequent sale
19 or other disposition of any such security by
20 the distributee (or by any other person in
21 whose hands the basis of such security is de-
22 termined by reference to the basis of the secu-
23 rity in the hands of the distributee) shall, to
24 the extent of the amount of such net unrealized

1 appreciation attributable to such security, be
2 considered a gain from the sale or exchange
3 of a capital asset held for more than 6 months
4 but not more than 2 years.”

5 (B) DISTRIBUTIONS UNDER EMPLOYEE AN-
6 NUITIES.—Section 403 (a) (2) (A) (relating to
7 capital gains treatment for certain distributions) is
8 amended by adding immediately before the period
9 at the end of the first sentence the words “but not
10 more than 2 years”.

11 (C) EFFECTIVE DATE.—

12 (i) The amendments made by subpara-
13 graphs (A) (ii) and (B) shall apply with re-
14 spect to distributions or amounts paid in tax-
15 able years of the distributees beginning after
16 December 31, 1963.

17 (ii) The amendments made by subpara-
18 graphs (A) (i) and (iii) shall apply with re-
19 spect to securities which are sold or otherwise
20 disposed of in taxable years beginning after
21 December 31, 1963.

22 (4) SALE OR EXCHANGE OF PATENTS.—Subsec-
23 tion (a) of section 1235 (relating to the sale or ex-
24 change of patents) is amended by adding at the end
25 thereof the following new sentences:

1 “In the case of a holder described in subsection (b) (1),
 2 any gain or loss on such a transfer shall be treated as class
 3 B capital gain or loss. In the case of a holder described in
 4 subsection (b) (2), any gain or loss on such a transfer shall
 5 be treated as class A, or class B, capital gain or loss, depend-
 6 ing on the period for which the property was held (or
 7 deemed held).”

8 (5) EMPLOYEE TERMINATION PAYMENTS.—Sec-
 9 tion 1240 (relating to taxability to employee of termina-
 10 tion payments) is amended by striking out “6 months”
 11 and inserting in lieu thereof “6 months but not more than
 12 2 years”.

13 (b) UNLIMITED CAPITAL LOSS CARRYOVER.—Section
 14 1212 (relating to capital loss carryover) is amended—

15 (1) by striking out “If for any taxable year the tax-
 16 payer” and inserting in lieu thereof:

17 “(a) CORPORATIONS.—If for any taxable year a
 18 corporation”; and

19 (2) by adding the following new subsection:

20 “(b) OTHER TAXPAYERS.—

21 “(1) To the extent, for any taxable year, a tax-
 22 payer, other than a corporation, has a net short-term,
 23 net class B, or net class A capital loss which does not
 24 reduce capital gains under the rules provided in section
 25 1222 (d), such loss, reduced as provided in paragraph

1 (2), shall be carried forward and treated in the suc-
2 ceeding taxable year as a short-term, class B, or class A
3 capital loss, as the case may be, sustained in such suc-
4 ceeding year.

5 “(2) An amount equal to the excess of the sum
6 allowable under section 1211 (b) over the gains from
7 sales or exchanges of capital assets for the taxable year
8 shall reduce, in order, any net short-term, class B, or
9 class A capital loss for the taxable year which does
10 not reduce capital gains for such year under the rules
11 provided in section 1222 (d).

12 “(3) For purposes of this subsection, a net capital
13 loss for a taxable year beginning before January 1,
14 1964, shall be determined under the applicable law
15 relating to the computation of capital gains and losses
16 in effect before such date, and the amount of any such
17 capital loss so determined which such applicable law
18 allows to be carried over to the first taxable year of the
19 taxpayer beginning after December 31, 1963, shall be
20 treated as a short-term capital loss occurring in such
21 taxable year.”

22 (c) TECHNICAL AMENDMENTS.—

23 (1) Section 172 (d) (2) (B) (relating to net op-
24 erating loss deduction) is amended by striking out “long-
25 term”.

1 (2) Section 333 (e) (2) (relating to noncorporate
2 shareholders of certain liquidating corporations) is
3 amended by striking out "short-term or long-term capital
4 gain," and inserting in lieu thereof "short-term, class
5 A, or class B capital gain,".

6 (3) Section 341 (a) (relating to collapsible cor-
7 porations) is amended by striking out "6 months" and
8 inserting in lieu thereof "6 months but not more than
9 2 years or held for more than 2 years, as the case may
10 be,".

11 (4) Section 584 (c) (1) (relating to common trust
12 funds) is amended—

13 (A) by striking out in subparagraph (B)
14 wherever it appears "6 months" and inserting in
15 lieu thereof "6 months but not more than 2 years",
16 and

17 (B) by redesignating subparagraph (C) as
18 subparagraph (D) and by inserting after sub-
19 paragraph (B) the following new subparagraph:

20 “(C) as part of its gains and losses from sales
21 or exchanges of capital assets held for more than 2
22 years, its proportionate share of the gains and losses
23 of the common trust fund from sales or exchanges of
24 capital assets held for more than 2 years;”.

25 (5) Section 642 (c) (relating to special rules for

1 credits and deductions) is amended by striking out
2 "6 months," and inserting in lieu thereof "6 months but
3 not more than 2 years or held for more than 2 years,
4 as the case may be,".

5 (6) Section 702 (a) (2) (relating to income and
6 credits of partners) is amended by striking out "6
7 months," and inserting in lieu thereof "6 months but
8 not more than 2 years or held for more than 2 years, as
9 the case may be,".

10 (7) (A) Section 852 (relating to taxation of reg-
11 ulated investment companies and their shareholders)
12 is amended by striking out subparagraphs (B) and (C)
13 of subsection (b) (3) and inserting in lieu thereof the
14 following:

15 " (B) TREATMENT OF CAPITAL GAIN DIVI-
16 DENDS BY SHAREHOLDERS.—A capital gain dividend
17 shall be treated by shareholders, other than corpora-
18 tions, as a class A or class B capital gain to the
19 extent so designated by the company. Shareholders
20 which are corporations shall treat a capital gain
21 dividend as a long-term capital gain.

22 " (C) DEFINITION OF CAPITAL GAIN DIVI-
23 DEND.—For purposes of this part, a capital gain divi-
24 dend is any dividend, or part thereof, which is desig-
25 nated by the company in a written notice mailed to

1 its shareholders not later than 30 days after the close
2 of its taxable year, as a distribution of class A
3 or class B capital gain. In the case of a share-
4 holder which is a corporation, if the aggregate
5 amount designated as a capital gain dividend with
6 respect to a taxable year of the company (including
7 capital gains dividends paid after the close of the
8 taxable year described in section 855) is greater
9 than the excess of the net long-term capital gain over
10 the net short-term capital loss of the taxable year,
11 the portion of each distribution which shall be a
12 capital gain dividend shall be only that proportion
13 of the amount so designated which such excess of
14 the net long-term capital gain over the net short-
15 term capital loss bears to the aggregate amount so
16 designated. In the case of a shareholder other than
17 a corporation, if the aggregate amount desig-
18 nated as class A capital gain, or as class B capi-
19 tal gain with respect to a taxable year of the com-
20 pany (including capital gains dividends paid after
21 the close of the taxable year described in section
22 855) is greater than the adjusted class A, or ad-
23 justed class B capital gain, respectively—

24 “(i) the portion of each distribution which
25 shall be treated as a class A capital gain shall

1 be only that proportion of the amount so desig-
2 nated as class A capital gain which the ad-
3 justed class A capital gain bears to the aggre-
4 gate amount so designated, and

5 “(ii) the portion of each distribution which
6 shall be treated as a class B capital gain shall
7 be only that proportion of the amount so desig-
8 nated as class B capital gain which the
9 adjusted class B capital gain bears to the ag-
10 gregate amount so designated.

11 For purposes of the preceding sentence, the adjusted
12 class A or adjusted class B capital gain shall be
13 computed as though the company were a taxpayer
14 other than a corporation except that section
15 1212 (a) shall apply in lieu of section 1212 (b).”

16 (B) Section 852 (b) (3) (D) is amended by strik-
17 ing out clauses (i), (ii), and (iii) and inserting in lieu
18 thereof the following:

19 “(i) Every shareholder of a regulated
20 investment company at the close of the com-
21 pany’s taxable year shall, in the case of a cor-
22 poration, in computing its long-term capital
23 gains, and, in the case of a shareholder other
24 than a corporation, in computing his class A and
25 class B capital gains, include in his return for his

1 taxable year in which the last day of the com-
2 pany's taxable year falls, such amounts as the
3 company shall designate in respect of such
4 shares in a written notice mailed to its share-
5 holders at any time prior to the expiration of
6 30 days after the close of its taxable year, but the
7 amount so includible by any shareholder shall
8 not exceed that part of the amount subjected to
9 tax in subparagraph (A) which he would have
10 received if all of such amount had been dis-
11 tributed as capital gain dividends by the com-
12 pany to the holders of such shares at the close
13 of its taxable year.

14 “(ii) For purposes of this title, every such
15 shareholder shall be deemed to have paid, for
16 his taxable year under clause (i), the tax of
17 25 percent imposed by subparagraph (A) on
18 the amounts required by this subparagraph to
19 be included in respect of such shares, in the case
20 of a corporation, in computing its long-term
21 capital gains, and, in the case of a shareholder
22 other than a corporation, in computing his class
23 A and class B capital gains, for that year; and
24 such shareholder shall be allowed credit or re-

1 fund, as the case may be, for the tax so deemed
2 to have been paid by him.

3 “(iii) The adjusted basis of such shares in
4 the hands of the shareholder shall be increased
5 by 75 percent of the amounts required by this
6 subparagraph to be included in computing his
7 capital gains.”

8 (C) Section 852 (b) (4) is amended to read as
9 follows:

10 “(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
11 LESS THAN 31 DAYS.—If, under subparagraph (B) or
12 (D) of paragraph (3) a shareholder of a regulated in-
13 vestment company is required, with respect to any share,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share is held by the taxpayer for
16 less than 31 days, then any loss on the sale or exchange
17 of such share shall—

18 “(A) in the case of a corporation, to the extent
19 of such long-term capital gain, be treated as loss
20 from the sale or exchange of a capital asset held for
21 more than 6 months, or

22 “(B) in the case of a shareholder other than a
23 corporation—

24 “(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or ex-

1 change of a capital asset held for more than
2 2 years, and

3 “(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.

7 If there is a loss on the sale or exchange of such
8 share which is less than the sum of such class A and
9 class B capital gains, then a portion of such loss
10 equal to the proportion which such class A capital
11 gain bears to the sum of such class A and class B
12 capital gains shall be a class A capital loss; and
13 the remainder of such loss shall be a class B capital
14 loss.

15 For purposes of this paragraph, the rules of section
16 246 (c) (3) shall apply in determining whether any
17 share of stock has been held for less than 31 days;
18 except that ‘30 days’ shall be substituted for ‘15 days’
19 in subparagraph (B) of section 246 (c) (3).”

20 (8) (A) Section 857 (relating to the taxation of
21 real estate investment trusts and their beneficiaries) is
22 amended by striking out subparagraphs (B) and (C)
23 of subsection (b) (3) and inserting in lieu thereof the
24 following:

25 “(B) TREATMENT OF CAPITAL GAIN DIVI-

1 DENDS BY SHAREHOLDERS.—A capital gain dividend
2 shall be treated by the shareholders or holders of
3 beneficial interests, other than corporations, as a
4 class A or class B capital gain to the extent so desig-
5 nated by the real estate investment trust. Share-
6 holders or holders of beneficial interests which are
7 corporations shall treat a capital gain dividend as a
8 long-term capital gain.

9 “(C) DEFINITION OF CAPITAL GAIN DIVI-
10 DEND.—For purposes of this part, a capital gain
11 dividend is any dividend, or part thereof, which
12 is designated by the real estate investment trust
13 in a written notice mailed to its shareholders or
14 holders of beneficial interests at any time before the
15 expiration of 30 days after the close of its taxable
16 year as a distribution of class A or class B capital
17 gain. In the case of a shareholder or holder of
18 beneficial interest which is a corporation, if the ag-
19 gregate amount designated as a capital gain divi-
20 dend with respect to a taxable year of the trust (in-
21 cluding capital gain dividends paid after the close
22 of the taxable year described in section 858) is
23 greater than the excess of the net long-term capital
24 gain over the net short-term capital loss of the tax-
25 able year, the portion of each distribution which

1 shall be a capital gain dividend shall be only that
2 proportion of the amount so designated which such
3 excess of the net long-term capital gain over the
4 net short-term capital loss bears to the aggregate
5 amount so designated. In the case of a shareholder
6 or holder of a beneficial interest other than a cor-
7 poration, if the aggregate amount designated as
8 class A or as class B capital gain with respect to a
9 taxable year of the trust (including capital gains
10 dividends paid after the close of the taxable year
11 described in section 858) is greater than the ad-
12 justed class A or adjusted class B capital gain, re-
13 spectively—

14 “(i) the portion of each distribution which
15 shall be treated as a class A capital gain shall
16 be only that proportion of the amount so desig-
17 nated as class A capital gain which the adjusted
18 class A capital gain bears to the aggregate
19 amount so designated, and

20 “(ii) the portion of each distribution which
21 shall be treated as a class B capital gain shall
22 be only that proportion of the amount so desig-
23 nated as class B capital gain which the ad-
24 justed class B capital gain bears to the aggre-
25 gate amount so designated.

1 For purposes of the preceding sentence, the adjusted
2 class A or class B capital gain shall be computed as
3 though the trust were a taxpayer other than a cor-
4 poration except that section 1212 (a) shall apply
5 in lieu of section 1212 (b)."

6 (B) Section 857 is amended by striking out para-
7 graph (4) of subsection (b) and inserting in lieu thereof
8 the following:

9 “(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
10 LESS THAN 31 DAYS.—If, under subparagraph (B) of
11 paragraph (3) a shareholder of, or a holder of a bene-
12 ficial interest in, a real estate investment trust is re-
13 quired, with respect to any share or beneficial interest,
14 to treat any amount as a long-term, class A, or class B
15 capital gain, and such share or interest is held by the
16 taxpayer for less than 31 days, then any loss on the
17 sale or exchange of such share or interest shall—

18 “(A) in the case of a corporation, to the ex-
19 tent of such long-term capital gain, be treated as
20 loss from the sale or exchange of a capital asset
21 held for more than 6 months, or

22 “(B) in the case of a shareholder other than
23 a corporation—

24 “(i) to the extent of such class A capital
25 gain, be treated as loss from the sale or exchange

1 of a capital asset held for more than 2 years,
2 and

3 “(ii) to the extent of such class B capital
4 gain, be treated as loss from the sale or ex-
5 change of a capital asset held for more than 6
6 months but not more than 2 years.

7 If there is a loss on the sale or exchange of such
8 share or interest which is less than the sum of such
9 class A and class B capital gains, then a portion of
10 such loss equal to the proportion which such class
11 A capital gain bears to the sum of such class A
12 and class B capital gains shall be a class A capital
13 loss; and the remainder of such loss shall be a class
14 B capital loss.

15 For purposes of this paragraph, the rules of section
16 246(c) (3) shall apply in determining whether any
17 share of stock or beneficial interest has been held
18 for less than 31 days; except that ‘30 days’ shall be sub-
19 stituted for ‘15 days’ in subparagraph (B) of section
20 246(c) (3).”

21 (9) The last sentence of section 1232(a) (2) (A)
22 (relating to bonds and other evidences of indebtedness)
23 is amended to read as follows: “Gain in excess of such
24 amount shall, in the case of a corporation, be considered
25 gain from the sale or exchange of a capital asset held

1 more than 6 months or in the case of a taxpayer other
2 than a corporation, be considered gain from the sale or
3 exchange of a capital asset held for more than 6 months
4 but not more than 2 years or held for more than 2 years,
5 as the case may be.”

6 (10) (A) Subsection (b) of section 1233 (relating
7 to gains and losses from short sales) is amended to read
8 as follows:

9 “(b) SHORT-TERM AND CLASS B GAINS AND HOLD-
10 ING PERIODS.—If gain or loss from a short sale is considered
11 as gain or loss from the sale or exchange of a capital asset
12 under subsection (a) and if on the date of such short sale
13 substantially identical property has been held by the
14 taxpayer—

15 “(1) for not more than 6 months (determined
16 without regard to the effect, under the second sentence
17 of this subsection, of such short sale on the holding
18 period), or if substantially identical property is acquired
19 by the taxpayer after such short sale and on or before
20 the date of the closing thereof, any gain on the closing
21 of such short sale shall be considered as a gain on the
22 sale or exchange of a capital asset held for not more than
23 6 months (notwithstanding the period of time any
24 property used to close such short sale has been held) ; or

1 “(2) in the case of a taxpayer other than a cor-
2 poration, for more than 6 months but not more than 2
3 years (determined without regard to the effect, under
4 the second sentence of this subsection, of such short
5 sale on the holding period), any gain on the closing of
6 such short sale shall be considered as a gain on the sale
7 or exchange of a capital asset held for more than 6
8 months but not more than 2 years (notwithstanding
9 the period of time any property used to close such short
10 sale has been held).

11 The holding period of such substantially identical property
12 shall be considered to begin (notwithstanding section 1223,
13 relating to the holding period of property) on the date of the
14 closing of the short sale, or on the date of a sale, gift, or
15 other disposition of such property, whichever date occurs
16 first. The preceding sentence shall apply to such substantially
17 identical property in the order of the dates of the acquisition
18 of such property, but only to so much of such property as
19 does not exceed the quantity sold short. For purposes of this
20 subsection, the acquisition of an option to sell property at a
21 fixed price shall be considered as a short sale, and the exer-
22 cise or failure to exercise such option shall be considered as
23 a closing of such short sale.”

1 (B) Subsection (d) of section 1233 is amended to
2 read as follows:

3 “(d) LONG-TERM, CLASS A, AND CLASS B LOSSES.—

4 If on the date of such short sale substantially identical prop-
5 erty has been held by the taxpayer—

6 “(1) In the case of a corporation, for more than 6
7 months, any loss on the closing of such short sale shall
8 be considered as a loss on the sale or exchange of a
9 capital asset held for more than 6 months (notwithstand-
10 ing the period of time any property used to close such
11 short sale has been held, and notwithstanding section
12 1234).

13 “(2) In the case of a taxpayer other than a corpo-
14 ration—

15 “(A) for more than 2 years, any loss on the
16 closing of such short sale shall be considered as a
17 loss on the sale or exchange of a capital asset held
18 for more than 2 years (notwithstanding the period
19 of time any property used to close such short sale
20 has been held, and notwithstanding section 1234),
21 or

22 “(B) for more than 6 months but not more
23 than 2 years, any loss on the closing of such short
24 sale shall be considered as a loss on the sale or ex-

1 change of a capital asset held for more than 6
2 months but not more than 2 years (notwithstanding
3 the period of time any property used to close such
4 short sale has been held, and notwithstanding
5 section 1234).”

6 (C) Paragraph (1) of section 1233 (e) is amended
7 to read as follows:

8 “(1) Subsection (b) or (d) shall not apply to the
9 gain or loss, respectively, on any quantity of property
10 used to close such short sale which is in excess of the
11 quantity of the substantially identical property referred
12 to in the applicable subsection. In the case of a tax-
13 payer other than a corporation—

14 “(A) subsection (b) (1) or (d) (2) (A)
15 shall not apply to the gain or loss, respectively, on
16 any quantity of property used to close such short
17 sale which is in excess of the quantity of the
18 substantially identical property to which either sub-
19 section (b) (1) or (d) (2) (A) applies (deter-
20 mined without regard to this subparagraph), and

21 “(B) subsection (b) (2) or (d) (2) (B) shall
22 apply only to the gain or loss, respectively, on the
23 excess described in subparagraph (A), but only
24 to the extent of the quantity of the substantially

1 identical property to which either subsection (b)
 2 (2) or (d) (2) (B) applies (determined without
 3 regard to this subparagraph).”

4 (D) Section 1233 (e) (4) (A) is amended by strik-
 5 ing out “for not more than 6 months,” in clause (i)
 6 and inserting in lieu thereof “in the case of a corporation,
 7 for not more than 6 months, or in the case of a taxpayer
 8 other than a corporation, for not more than 2 years,”
 9 and by striking out “subsection (b) (2)” in the lan-
 10 guage following clause (ii) and inserting in lieu thereof
 11 “the second and third sentences of subsection (b)”.

12 (E) Section 1233 (f) is amended by striking out
 13 “subsection (b) (2)” each place it appears and inserting
 14 in lieu thereof “the second and third sentences of sub-
 15 section (b)”.

16 (11) (A) Section 1247 (relating to election by
 17 foreign investment companies to distribute income cur-
 18 rently) is amended by striking out subparagraph (B)
 19 of subsection (a) (1) and inserting in lieu thereof the
 20 following:

21 “(B) designate in a written notice mailed to
 22 its shareholders at any time before the expiration of
 23 45 days after the close of its taxable year the pro
 24 rata amount for the taxable year of the adjusted
 25 class A and adjusted class B capital gain (deter-

1 mined as though such corporation were a taxpayer
2 other than a corporation except that section 1212
3 (a) shall apply in lieu of section 1212 (b)) ; and
4 the portions thereof which are being distributed;
5 and”

6 (B) Clause (i) of section 1247 (a) (2) (A) is
7 amended to read as follows:

8 “(i) the adjusted class A and adjusted
9 class B capital gain referred to in paragraph
10 (1) (B),”

11 (C) Subparagraph (C) of section 1247 (a) (2) is
12 amended to read as follows:

13 “(C) CARRYOVER OF CAPITAL LOSSES FROM
14 NONELECTION YEARS DENIED.—In computing the
15 adjusted class A and adjusted class B capital gains
16 referred to in paragraph (1) (B) , section 1212 shall
17 not apply to losses incurred in or with respect to
18 taxable years before the first taxable year to which
19 the election applies.”

20 (D) Section 1247 (c) (2) is amended by striking
21 out “his long-term capital gains” and inserting in lieu
22 thereof “in the case of a shareholder which is a corpora-
23 tion, its long-term capital gains, and in the case of a
24 shareholder other than a corporation, his class A and
25 class B capital gains”;

1 (E) Subsection (d) of section 1247 is amended
2 to read as follows:

3 “(d) TREATMENT OF DISTRIBUTED AND UNDIS-
4 TRIBUTED CAPITAL GAINS BY A QUALIFIED SHARE-
5 HOLDER.—Every qualified shareholder of a foreign investment
6 company for any taxable year of such company with respect
7 to which an election pursuant to subsection (a) is in effect
8 shall—

9 “(1) if such shareholder is a taxpayer other than
10 a corporation—

11 “(A) include in computing his class A or class
12 B capital gain for his taxable year in which re-
13 ceived, his pro rata share of the distributed portion
14 of the adjusted class A or adjusted class B capital
15 gain, respectively, and

16 “(B) include in computing his class A or class
17 B capital gain for his taxable year in which or with
18 which the taxable year of such company ends, his
19 pro rata share of the undistributed portion of the
20 adjusted class A or adjusted class B capital gain,
21 respectively, or

22 “(2) if such shareholder is a corporation, include
23 in computing its long-term capital gains—

24 “(A) for its taxable year in which received,

1 its pro rata share of the distributed portion of the
 2 sum of the adjusted class A and adjusted class B
 3 capital gains, and

4 “(B) for its taxable year in which or with
 5 which the taxable year of such company ends,
 6 its pro rata share of the undistributed portion of the
 7 sum of the adjusted class A and adjusted class B
 8 capital gains.

9 For purposes of this subsection the adjusted class A and
 10 adjusted class B capital gains shall be determined as pro-
 11 vided in subsection (a) (1) (B).”

12 (F) Subsection (i) of section 1247 is amended
 13 to read as follows:

14 “(i) LOSS ON SALE OR EXCHANGE OF CERTAIN
 15 STOCK.—

16 “(1) SHAREHOLDERS OTHER THAN CORPORA-
 17 TIONS.—If, under this section, any qualified shareholder
 18 other than a corporation treats any amount designated
 19 under subsection (a) (1) (B) with respect to a share
 20 of stock as—

21 “(A) class B capital gain and such share is
 22 held by the taxpayer for 6 months or less, then
 23 any loss on the sale or exchange of such share shall,
 24 to the extent of the amount treated as class B capital

1 gain, be treated as a loss from the sale or exchange
2 of a capital asset held for more than 6 months but
3 not more than 2 years,

4 “(B) class A capital gain and such share is
5 held by the taxpayer for 2 years or less, then any
6 loss on the sale or exchange of such share shall, to
7 the extent of the amount treated as class A capital
8 gain, be treated as a loss from the sale or exchange
9 of a capital asset held for more than 2 years, or

10 “(C) both class A and class B capital gains
11 and such share is held by the taxpayer for 6 months
12 or less and there is a loss on the sale or exchange of
13 such stock which is less than the sum of the amount
14 so designated, then an amount of such loss shall be
15 treated as a loss from the sale or exchange of a
16 capital asset held for more than 6 months but not
17 more than 2 years which bears the same relation
18 to such loss as the class B capital gain so designated
19 bears to the sum of such class B and the class A
20 capital gains so designated; and the remainder of
21 such loss shall be treated as a loss from the sale or
22 exchange of a capital asset held for more than
23 2 years.

24 “(2) CORPORATE SHAREHOLDERS.—If, under this
25 section, any qualified shareholder which is a corpora-

tion treats any amount designated under subsection (a) (1) (B) with respect to a share of stock as long-term capital gain and such share is held by the taxpayer for 6 months or less, then any loss on the sale or exchange of such share shall, to the extent of the amount treated as long-term capital gain, be treated as a loss from the sale or exchange of a capital asset held for more than 6 months."

(12) Section 1248 (b) (relating to gain from certain sales or exchanges of stock in certain foreign corporations) is amended by striking out "6 months," each place it appears and inserting in lieu thereof "6 months but not more than 2 years or held for more than 2 years, as the case may be,".

(13) Section 1375 (a) (relating to special rules applicable to capital gains of electing small business corporations) is amended to read as follows:

"(a) CAPITAL GAINS.—

"(1) TREATMENT IN HANDS OF SHAREHOLDERS.—

The amount includible in the gross income of a shareholder as dividends (including amounts treated as dividends under section 1373 (b)) from an electing small business corporation during any taxable year of the corporation, to the extent such amount is a distribution of property out of earnings and profits of the taxable year

1 as specified in section 316 (a) (2), shall be treated (i)
2 as class A capital gain to the extent of the shareholder's
3 pro rata share of the adjusted class A capital gain
4 (computed by the corporation as though it were a
5 taxpayer other than a corporation except that section
6 1212 (b) (2) shall not apply) for such taxable year,
7 and (ii) as class B capital gain to the extent of the
8 shareholder's pro rata share of the adjusted class B
9 capital gain (computed by the corporation as though
10 it were a taxpayer other than a corporation except
11 that section 1212 (b) (2) shall not apply) for such
12 taxable year. For purposes of this paragraph, the
13 adjusted class A capital gain or the adjusted class B
14 capital gain shall be deemed not to exceed an amount
15 equal to that portion of the corporation's taxable income
16 (computed as provided in section 1373 (d)) for
17 the taxable year which bears the same ratio to such
18 taxable income as such adjusted class A capital gain or
19 such adjusted class B capital gain (determined without
20 regard to the provisions of this sentence) bears to the
21 sum of such adjusted class A and adjusted class B capital
22 gains.

23 “(2) DETERMINATION OF SHAREHOLDER'S PRO
24 RATA SHARE.—A shareholder's pro rata share of the
25 adjusted class A or adjusted class B capital gain (com-
26 puted as provided in paragraph (1)) for any taxable

1 year shall be an amount which bears the same ratio to
2 such adjusted class A capital gain or such adjusted class
3 B capital gain as the amount of dividends described in
4 paragraph (1) includible in the shareholder's gross
5 income bears to the entire amount of dividends described
6 in paragraph (1) includible in the gross income of all
7 shareholders."

8 (d) EFFECTIVE DATE.—

9 (1) GENERAL RULE.—Except as otherwise specifi-
10 cally provided, and except as provided by paragraph
11 (2), the amendments made by this section shall apply
12 to taxable years beginning after December 31, 1963.

13 (2) TRANSITION RULES.—

14 (A) DISTRIBUTIONS OF CAPITAL GAINS.—

15 (i) If a taxpayer, other than a corporation,
16 is required to include as capital gain in his gross
17 income for a taxable year beginning after
18 December 31, 1963, an amount attributable
19 to sales or exchanges of capital assets held
20 for more than 6 months and such gain was
21 realized in a taxable year beginning before
22 January 1, 1964, by a person described in
23 clause (iii), such amount shall be treated by
24 such taxpayer as class B capital gain.

25 (ii) If a taxpayer, other than a corpora-
26 tion, is required to include as capital gain in

1 his gross income for a taxable year beginning
2 before January 1, 1964, an amount attributable
3 to sales or exchanges of capital assets held for
4 more than 6 months and such gain was realized
5 in a taxable year beginning after December
6 31, 1963, by a person described in clause (iii),
7 such amount shall be treated by such taxpayer
8 as long-term capital gain.

9 (iii) This subparagraph applies in respect
10 of a regulated investment company or a real
11 estate investment trust to which subchapter M
12 of chapter 1 of the Internal Revenue Code of
13 1954 applies, a foreign investment company to
14 which section 1247 of such Code applies, an
15 electing small business corporation to which
16 subchapter S of chapter 1 of such Code applies,
17 a common trust fund to which section 584
18 applies, a partnership, an estate, and a trust.

19 (B) LOSS ON SALE OR EXCHANGE OF CER-
20 TAIN STOCK.—If a shareholder (or a holder of a
21 beneficial interest), other than a corporation, in a
22 regulated investment company, real estate invest-
23 ment trust, or foreign investment company is re-
24 quired for a taxable year beginning before January
25 1, 1964, under section 852 (b) (3) (B) or (D),
26 section 857 (b) (3) (B), or section 1247 (d), to

1 treat an amount with respect to a share (or bene-
2 ficial interest), as a long-term capital gain, and
3 such share (or beneficial interest) is held by the
4 taxpayer for less than 31 days (6 months or less in
5 the case of a shareholder of a foreign investment
6 company), then a loss on the sale or exchange of
7 such share in a taxable year of such shareholder
8 beginning after December 31, 1963, shall to the
9 extent of such long-term capital gain, be treated as
10 loss from the sale or exchange of a capital asset
11 held for more than 6 months but not more than
12 2 years.

13 (C) REGULATORY AUTHORITY.—The Secre-
14 tary or his delegate shall prescribe such regulations
15 as may be necessary to carry out the purposes of
16 this subsection.

17 (D) MEANING OF TERMS.—Terms used in this
18 subsection shall have the same meaning as when
19 used in chapter 1 of the Internal Revenue Code of
20 1954.

21 **SEC. 220. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-**
22 **CIABLE REALTY.**

23 (a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
24 CIABLE REALTY.—Part IV of subchapter P of chapter 1
25 (relating to special rules for determining capital gains and

1 losses) is amended by adding at the end thereof the follow-
 2 ing new section:

3 **"SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-**
 4 **CIABLE REALTY.**

5 **"(a) GENERAL RULE.—**

6 **"(1) ORDINARY INCOME.—**Except as otherwise
 7 provided in this section, if section 1250 property is dis-
 8 posed of after December 31, 1963, the applicable per-
 9 centage of the lower of—

10 **"(A)** the additional depreciation (as defined in
 11 subsection (b) (1)) in respect of the property, or

12 **"(B)** the excess of—

13 **"(i)** the amount realized (in the case of a
 14 sale, exchange, or involuntary conversion), or
 15 the fair market value of such property (in the
 16 case of any other disposition), over

17 **"(ii)** the adjusted basis of such property,
 18 shall be treated as gain from the sale or exchange of
 19 property which is neither a capital asset nor property
 20 described in section 1231. Such gain shall be recog-
 21 nized notwithstanding any other provision of this
 22 subtitle.

23 **"(2) APPLICABLE PERCENTAGE.—**For purposes of
 24 paragraph (1), the term 'applicable percentage'
 25 means 100 percent minus one percentage point for each

1 full month the property was held after the date on which
2 the property was held 20 full months.

3 “(b) ADDITIONAL DEPRECIATION DEFINED.—For
4 purposes of this section—

5 “(1) IN GENERAL.—The term ‘additional deprecia-
6 tion’ means, in the case of any property, the depreciation
7 adjustments in respect of such property; except that, in
8 the case of property held more than one year, it means
9 such adjustments only to the extent that they exceed the
10 amount of the depreciation adjustments which would
11 have resulted if such adjustments had been determined
12 for each taxable year under the straight line method of
13 adjustment. For purposes of the preceding sentence, if a
14 useful life (or salvage value) was used in determining
15 the amount allowed as a deduction for any taxable year,
16 such life (or value) shall be used in determining the
17 depreciation adjustments which would have resulted for
18 such year under the straight line method.

19 “(2) PROPERTY HELD BY LESSEE.—In the case
20 of a lessee, in determining the depreciation adjustments
21 which would have resulted in respect of any building
22 erected (or other improvement made) on the leased
23 property, or in respect of any cost of acquiring the lease,
24 the lease period shall be treated as including all renewal
25 periods. For purposes of the preceding sentence—

1 “(A) the term ‘renewal period’ means any
2 period for which the lease may be renewed, ex-
3 tended, or continued pursuant to an option exercis-
4 able by the lessee, but

5 “(B) the inclusion of renewal periods shall
6 not extend the period taken into account by more
7 than $\frac{2}{3}$ of the period on the basis of which the
8 depreciation adjustments were allowed.

9 “(3) DEPRECIATION ADJUSTMENTS.—The term
10 ‘depreciation adjustments’ means, in respect of any
11 property, all adjustments attributable to periods after
12 December 31, 1963, reflected in the adjusted basis of
13 such property on account of deductions (whether in
14 respect of the same or other property) allowed or
15 allowable to the taxpayer or to any other person for
16 exhaustion, wear and tear, obsolescence, or amortization
17 (other than amortization under section 168). For pur-
18 poses of the preceding sentence, if the taxpayer can
19 establish by adequate records or other sufficient evidence
20 that the amount allowed as a deduction for any period
21 was less than the amount allowable, the amount taken
22 into account for such period shall be the amount allowed.

23 “(c) SECTION 1250 PROPERTY.—For purposes of this
24 section, the term ‘section 1250 property’ means any real
25 property (other than section 1245 property, as defined in
26 section 1245 (a) (3)) which is or has been property of a

1 character subject to the allowance for depreciation provided
2 in section 167.

3 “(d) EXCEPTIONS AND LIMITATIONS.—

4 “(1) GIFTS.—Subsection (a) shall not apply to a
5 disposition by gift.

6 “(2) TRANSFERS AT DEATH.—Except as provided
7 in section 691 (relating to income in respect of a de-
8 cedent), subsection (a) shall not apply to a transfer at
9 death.

10 “(3) CERTAIN TAX-FREE TRANSACTIONS.—If the
11 basis of property in the hands of a transferee is deter-
12 mined by reference to its basis in the hands of the trans-
13 feror by reason of the application of section 332, 351,
14 361, 371 (a), 374 (a), 721, or 731, then the amount
15 of gain taken into account by the transferor under sub-
16 section (a) (1) shall not exceed the amount of gain
17 recognized to the transferor on the transfer of such prop-
18 erty (determined without regard to this section).
19 This paragraph shall not apply to a disposition to an
20 organization (other than a cooperative described in sec-
21 tion 521) which is exempt from the tax imposed by this
22 chapter.

23 “(4) LIKE KIND EXCHANGES; INVOLUNTARY
24 CONVERSIONS, ETC.—

25 “(A) RECOGNITION LIMIT.—If property is

1 disposed of and gain (determined without regard
2 to this section) is not recognized in whole or in
3 part under section 1031 or 1033, then the amount
4 of gain taken into account by the transferor under
5 subsection (a) (1) shall not exceed the greater of
6 the following:

7 “(i) the amount of gain recognized on the
8 disposition (determined without regard to this
9 section), increased as provided in subparagraph
10 (B), or

11 “(ii) the amount determined under sub-
12 paragraph (C).

13 “(B) INCREASE FOR CERTAIN STOCK.—With
14 respect to any transaction, the increase provided
15 by this subparagraph is the amount equal to the
16 fair market value of any stock purchased in a cor-
17 poration which (but for this paragraph) would
18 result in nonrecognition of gain under section
19 1033 (a) (3) (A).

20 “(C) ADJUSTMENT WHERE INSUFFICIENT
21 SECTION 1250 PROPERTY IS ACQUIRED.—With re-
22 spect to any transaction, the amount determined
23 under this subparagraph shall be the excess of—

24 “(i) the amount of gain which would (but
25 for this paragraph) be taken into account un-
26 der subsection (a) (1), over

1 “(ii) the fair market value (or cost in
2 the case of a transaction described in section
3 1033 (a) (3)) of the section 1250 property
4 acquired in the transaction.

5 “(D) BASIS OF PROPERTY ACQUIRED.—In the
6 case of property purchased by the taxpayer in a
7 transaction described in section 1033 (a) (3), in
8 applying the last sentence of section 1033 (c), such
9 sentence shall be applied—

10 “(i) first solely to section 1250 properties
11 and to the amount of gain not taken into ac-
12 count under subsection (a) (1) by reason of
13 this paragraph, and

14 “(ii) then to all purchased properties
15 to which such sentence applies and to the re-
16 maining gain not recognized on the transaction
17 as if the cost of the section 1250 properties were
18 the basis of such properties computed under
19 clause (i).

20 In the case of property acquired in any other trans-
21 action to which this paragraph applies, rules con-
22 sistent with the preceding sentence shall be applied
23 under regulations prescribed by the Secretary or his
24 delegate.

25 “(E) ADDITIONAL DEPRECIATION WITH RE-
26 SPECT TO PROPERTY DISPOSED OF.—In the case of

1 any transaction described in section 1031 or 1033,
2 the additional depreciation in respect of the section
3 1250 property acquired which is attributable to the
4 section 1250 property disposed of shall be an amount
5 equal to the amount of the gain which was not
6 taken into account under subsection (a) (1) by
7 reason of the application of this paragraph.

8 “(5) SECTION 1071 AND 1081 TRANSACTIONS.—

9 Under regulations prescribed by the Secretary or his
10 delegate, rules consistent with paragraphs (3) and (4)
11 of this subsection and with subsections (e) and (f)
12 shall apply in the case of transactions described in sec-
13 tion 1071 (relating to gain from sale or exchange to
14 effectuate policies of FCC) or section 1081 (relating to
15 exchanges in obedience to SEC orders).

16 “(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP
17 TO A PARTNER.—

18 “(A) IN GENERAL.—For purposes of this sec-
19 tion, the basis of section 1250 property distributed
20 by a partnership to a partner shall be deemed to be
21 determined by reference to the adjusted basis of
22 such property to the partnership.

23 “(B) ADDITIONAL DEPRECIATION.—In respect
24 of any property described in subparagraph (A), the
25 additional depreciation attributable to periods before
26 the distribution by the partnership shall be—

“(i) the amount of the gain to which subsection (a) would have applied if such property had been sold by the partnership immediately before the distribution at its fair market value at such time and the applicable percentage for the property had been 100 percent, reduced by

“(ii) if section 751 (b) applied to any part of such gain, the amount of such gain to which section 751 (b) would have applied if the applicable percentage for the property had been 100 percent.

“(7) DISPOSITION OF PRINCIPAL RESIDENCE.—

Subsection (a) shall not apply to a disposition of—

“(A) property to the extent used by the taxpayer as his principal residence (within the meaning of section 1034, relating to sale or exchange of residence), and

“(B) property in respect of which the taxpayer meets the age and ownership requirements of section 121 (relating to gains from sale or exchange of residence of individual who has attained the age of 65) but only to the extent that he meets the use requirements of such section in respect of such property.

“(e) HOLDING PERIOD.—For purposes of determining the applicable percentage under this section, the provisions

1 of section 1223 shall not apply, and the holding period of
2 section 1250 property shall be determined under the follow-
3 ing rules:

4 “(1) BEGINNING OF HOLDING PERIOD.—The hold-
5 ing period of section 1250 property shall be deemed to
6 begin—

7 “(A) in the case of property acquired by the
8 taxpayer, on the day after the date of acquisition,
9 or

10 “(B) in the case of property constructed, re-
11 constructed, or erected by the taxpayer, on the
12 first day of the month during which the property
13 is placed in service.

14 “(2) PROPERTY WITH TRANSFERRED BASIS.—If
15 the basis of property acquired in a transaction described
16 in paragraph (1), (2), (3), or (5) of subsection (d)
17 is determined by reference to its basis in the hands of the
18 transferor, then the holding period of the property in
19 the hands of the transferee shall include the holding
20 period of the property in the hands of the transferor.

21 “(3) PRINCIPAL RESIDENCE.—If the basis of
22 property acquired in a transaction described in para-
23 graph (7) of subsection (d) is determined by reference
24 to the basis in the hands of the taxpayer of other prop-
25 erty, then the holding period of the property acquired
26 shall include the holding period of such other property.

1 “(f) SPECIAL RULES FOR PROPERTY WHICH IS SUB-
2 STANTIALLY IMPROVED.—

3 “(1) AMOUNT TREATED AS ORDINARY IN-
4 COME.—If, in the case of a disposition of section 1250
5 property, the property is treated as consisting of more
6 than one element by reason of paragraph (3), then the
7 amount taken into account under subsection (a) (1)
8 in respect of such section 1250 property as gain from
9 the sale or exchange of property which is neither a
10 capital asset nor property described in section 1231 shall
11 be the sum of the amounts determined under paragraph
12 (2).

13 “(2) ORDINARY INCOME ATTRIBUTABLE TO AN
14 ELEMENT.—For purposes of paragraph (1), the
15 amount taken into account for any element shall be the
16 amount determined by multiplying—

17 “(A) the amount which bears the same ratio
18 to the lower of the amounts specified in subpara-
19 graph (A) or (B) of subsection (a) (1) for the
20 section 1250 property as the additional depreciation
21 for such element bears to the sum of the additional
22 depreciation for all elements, by

23 “(B) the applicable percentage for such ele-
24 ment.

25 For purposes of this paragraph, determinations with

1 respect to any element shall be made as if it were a
2 separate property.

3 “(3) PROPERTY CONSISTING OF MORE THAN ONE
4 ELEMENT.—In applying this subsection in the case of
5 any section 1250 property, there shall be treated as a
6 separate element—

7 “(A) each separate improvement,

8 “(B) if, before completion of section 1250
9 property, units thereof (as distinguished from im-
10 provements) were placed in service, each such unit
11 of section 1250 property, and

12 “(C) the remaining property which is not
13 taken into account under subparagraphs (A) and
14 (B).

15 “(4) PROPERTY WHICH IS SUBSTANTIALLY IM-
16 PROVED.—For purposes of this subsection—

17 “(A) IN GENERAL.—The term ‘separate im-
18 provement’ means each improvement added during
19 the 36-month period ending on the last day of any
20 taxable year to the capital account for the prop-
21 erty, but only if the sum of the amounts added to
22 such account during such period exceeds the
23 greatest of—

24 “(i) 25 percent of the adjusted basis of
25 the property,

26 “(ii) 10 percent of the adjusted basis of

the property, determined without regard to the adjustments provided in paragraphs (2) and (3) of section 1016 (a), or

“ (iii) \$5,000.

For purposes of clauses (i) and (ii), the adjusted basis of the property shall be determined as of the beginning of the first day of such 36-month period, or of the holding period of the property (within the meaning of subsection (e)), whichever is the later.

“(B) EXCEPTION.—Improvements in any taxable year shall be taken into account for purposes of subparagraph (A) only if the sum of the amounts added to the capital account for the property for such taxable year exceeds the greater of—

“ (i) \$2,000, or

“ (ii) one percent of the adjusted basis referred to in subparagraph (A) (ii), determined, however, as of the beginning of such taxable year.

For purposes of this section, if the amount added to the capital account for any separate improvement does not exceed the greater of clause (i) or (ii), such improvement shall be treated as placed in service on the first day, of a calendar month, which is closest to the middle of the taxable year.

“(C) IMPROVEMENT.—The term ‘improve-

1 ment' means, in the case of any section 1250 prop-
 2 erty, any addition to capital account for such prop-
 3 erty after the initial acquisition or after completion
 4 of the property.

5 “(g) ADJUSTMENTS TO BASIS.—The Secretary or his
 6 delegate shall prescribe such regulations as he may deem nec-
 7 essary to provide for adjustments to the basis of property to
 8 reflect gain recognized under subsection (a).

9 “(h) APPLICATION OF SECTION.—This section shall
 10 apply notwithstanding any other provision of this subtitle.”

11 (b) TECHNICAL AMENDMENTS.—

12 (1) SPECIAL RULE FOR CHARITABLE CONTRIBU-
 13 TIONS.—

14 (A) The heading of section 170 (e) (relating
 15 to special rule for charitable contributions of section
 16 1245 property) is amended by striking out “SEC-
 17 TION 1245 PROPERTY” and inserting in lieu thereof
 18 “CERTAIN PROPERTY”.

19 (B) The text of such section 170 (e) is
 20 amended by striking out “section 1245 (a)” and in-
 21 serting in lieu thereof “section 1245 (a) or
 22 1250 (a)”.

23 (2) CORPORATE DISTRIBUTIONS OF PROPERTY.—
 24 Subsections (b) and (d) of section 301 (relating to
 25 amount distributed) are each amended by striking out

1 “under section 1245 (a)” and inserting in lieu thereof
2 “under section 1245 (a) or 1250 (a)”.

3 (3) EFFECT ON EARNINGS AND PROFITS.—Para-
4 graph (3) of section 312 (c) (relating to adjustments
5 of earnings and profits) is amended by striking out “or
6 under section 1245 (a)” and inserting in lieu thereof
7 “or under section 1245 (a) or 1250 (a)”.

8 (4) COLLAPSIBLE CORPORATIONS.—Paragraph
9 (12) of section 341 (e) (relating to collapsible cor-
10 porations) is amended by striking out “section 1245
11 (a)” and inserting in lieu thereof “sections 1245 (a)
12 and 1250 (a)”.

13 (5) INSTALLMENT OBLIGATIONS IN CERTAIN
14 LIQUIDATIONS.—Subparagraphs (A) and (B) of section
15 453 (d) (4) (relating to distribution of installment obli-
16 gations in certain corporate liquidations) are each
17 amended by striking out “section 1245 (a)” and insert-
18 ing in lieu thereof “section 1245 (a) or 1250 (a)”.

19 (6) SPECIAL RULE FOR PARTNERSHIPS.—Section
20 751 (c) (relating to definition of “unrealized receiva-
21 bles” for purposes of subchapter K) is amended by
22 striking out “(as defined in section 1245 (a) (3))” and
23 inserting in lieu thereof “(as defined in section 1245
24 (a) (3)) and section 1250 property (as defined in sec-
25 tion 1250 (c))” and by striking out “to which section

1 1245 (a) ” and inserting in lieu thereof “to which section
2 1245 (a) or 1250 (a) ”.

3 (7) The table of sections for part IV of subchapter
4 P of chapter 1 is amended by adding at the end thereof
5 the following:

“Sec. 1250. Gain from dispositions of certain depreciable
 realty.”

6 (c) **EFFECTIVE DATE.**—The amendments made by this
7 section shall apply to dispositions after December 31, 1963,
8 in taxable years ending after such date.

9 **SEC. 221. AVERAGING.**

10 (a) **GENERAL RULE.**—Part I of subchapter Q of chap-
11 ter 1 is amended to read as follows:

12 **“PART I—INCOME AVERAGING**

“Sec. 1301. Limitation on tax.

“Sec. 1302. Definition of averagable income; related defi-
 nitions.

“Sec. 1303. Eligible individuals.

“Sec. 1304. Special rules.

“Sec. 1305. Regulations.

13 **“SEC. 1301. LIMITATION ON TAX.**

14 “If an eligible individual has averagable income for the
15 computation year, and if the amount of such income exceeds
16 \$3,000, then the tax imposed by section 1 for the computa-
17 tion year which is attributable to averagable income shall
18 be 5 times the increase in tax under such section which would
19 result from adding 20 percent of such income to the sum of—

20 “(1) $133\frac{1}{3}$ percent of average base period income,
21 and

1 “(2) the amount (if any) of the average base
2 period capital gain net income.

3 **“SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RE-**
4 **LATED DEFINITIONS.**

5 “(a) AVERAGABLE INCOME.—For purposes of this
6 part—

7 “(1) IN GENERAL.—The term ‘averagable income’
8 means the amount (if any) by which adjusted tax-
9 able income exceeds $133\frac{1}{3}$ percent of average base period
10 income.

11 “(2) ADJUSTMENT IN CERTAIN CASES FOR CAPI-
12 TAL GAINS.—If—

13 “(A) the average base period capital gain net
14 income, exceeds

15 “(B) the capital gain net income for the com-
16 putation year,

17 then the term ‘averagable income’ means the amount de-
18 termined under paragraph (1), reduced by an amount
19 equal to such excess.

20 “(b) ADJUSTED TAXABLE INCOME.—For purposes of
21 this part, the term ‘adjusted taxable income’ means the tax-
22 able income for the computation year, decreased by the sum
23 of the following amounts:

24 “(1) CAPITAL GAIN NET INCOME FOR THE COM-

1 PUTATION YEAR.—The amount (if any) of the capital
2 gain net income for the computation year.

3 “(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS,
4 ETC.—

5 “(A) IN GENERAL.—The amount of net in-
6 come attributable to an interest in property where
7 such interest was received by the taxpayer as a gift,
8 bequest, devise, or inheritance during the computa-
9 tion year or any base period year. This para-
10 graph shall not apply to gifts, bequests, devises,
11 or inheritances between husband and wife if they
12 make a joint return, or if one of them makes a re-
13 turn as a surviving spouse (as defined in section
14 2 (b)), for the computation year.

15 “(B) AMOUNT OF NET INCOME.—Unless the
16 taxpayer otherwise establishes to the satisfaction of
17 the Secretary or his delegate, the amount of net
18 income for any taxable year attributable to an
19 interest described in subparagraph (A) shall be
20 deemed to be 6 percent of the fair market value of
21 such interest (as determined in accordance with
22 the provisions of chapter 11 or chapter 12, as the
23 case may be).

24 “(C) LIMITATION.—This paragraph shall ap-
25 ply only if the sum of the net incomes attributable

1 to interests described in subparagraph (A) exceeds
2 \$3,000.

3 “(D) NET INCOME.—For purposes of this
4 paragraph, the term ‘net income’ means, with re-
5 spect to any interest, the excess of—

6 “(i) items of gross income attributable to
7 such interest, over

8 “(ii) the deductions properly allocable to
9 or chargeable against such items.

10 For purposes of computing such net income, capital
11 gains and losses shall not be taken into account.

12 “(3) WAGERING INCOME.—The amount (if any)
13 by which the gains from wagering transactions for the
14 computation year exceed the losses from such trans-
15 actions.

16 “(4) CERTAIN AMOUNTS RECEIVED BY OWNER-
17 EMPLOYEES.—The amount (if any) to which section
18 72 (m) (5) (relating to penalties applicable to certain
19 amounts received by owner-employees) applies.

20 “(c) AVERAGE BASE PERIOD INCOME.—For purposes
21 of this part—

22 “(1) IN GENERAL.—The term ‘average base period
23 income’ means one-fourth of the sum of the base period
24 incomes for the base period.

1 “(2) **BASE PERIOD INCOME.**—The base period in-
2 come for any taxable year is the taxable income for such
3 year first increased and then decreased (but not below
4 zero) in the following order:

5 “(A) Taxable income shall be increased by an
6 amount equal to the excess of—

7 “(i) the amount excluded from gross in-
8 come under section 911 (relating to earned in-
9 come from sources without the United States)
10 and subpart D of part III of subchapter N (sec.
11 931 and following, relating to income from
12 sources within possessions of the United States),
13 over

14 “(ii) the deductions which would have
15 been properly allocable to or chargeable against
16 such amount but for the exclusion of such
17 amount from gross income.

18 “(B) Taxable income shall be decreased by
19 the capital gain net income.

20 “(C) If the decrease provided by paragraph
21 (2) of subsection (b) applies to the computation
22 year, the taxable income shall be decreased under
23 the rules of such paragraph (2) (other than the
24 limitation contained in subparagraph (C) thereof).

25 “(d) **CAPITAL GAIN NET INCOME, ETC.**—For pur-
26 poses of this part—

1 “(1) CAPITAL GAIN NET INCOME.—The term
2 ‘capital gain net income’ means, for any taxable year
3 beginning after December 31, 1963, the amount (if
4 any) by which—

5 “(A) the sum of the adjusted class A capital
6 gain and the adjusted class B capital gain, exceeds

7 “(B) the deduction allowable under section
8 1202 (a) .

9 The term ‘capital gain net income’ means, for any
10 taxable year beginning before January 1, 1964, the
11 amount equal to 50 percent of the excess of the net
12 long-term capital gain over the net short-term capital
13 loss.

14 “(2) AVERAGE BASE PERIOD CAPITAL GAIN NET
15 INCOME.—The term ‘average base period capital gain
16 net income’ means one-fourth of the sum of the capital
17 gain net incomes for the base period. For purposes of
18 the preceding sentence, the capital gain net income for
19 any base period year shall not exceed the base period
20 income for such year computed without regard to sub-
21 section (c) (2) (B) .

22 “(e) OTHER RELATED DEFINITIONS.—For purposes
23 of this part—

24 “(1) COMPUTATION YEAR.—The term ‘computa-

1 tion year' means the taxable year for which the taxpayer
2 chooses the benefits of this part.

3 “(2) **BASE PERIOD.**—The term ‘base period’ means
4 the 4 taxable years immediately preceding the compu-
5 tation year.

6 “(3) **BASE PERIOD YEAR.**—The term ‘base period
7 year’ means any of the 4 taxable years immediately
8 preceding the computation year.

9 “(4) **JOINT RETURN.**—The term ‘joint return’
10 means the return of a husband and wife made under
11 section 6013.

12 **“SEC. 1303. ELIGIBLE INDIVIDUALS.**

13 “(a) **GENERAL RULE.**—Except as otherwise provided
14 in this section, for purposes of this part the term ‘eligible
15 individual’ means any individual who is a citizen or resi-
16 dent of the United States throughout the computation year.

17 “(b) **NONRESIDENT ALIEN INDIVIDUALS.**—For pur-
18 poses of this part, an individual shall not be an eligible in-
19 dividual for the computation year if, at any time during
20 such year or the base period, such individual was a nonresi-
21 dent alien.

22 “(c) **INDIVIDUALS RECEIVING SUPPORT FROM**
23 **OTHERS.**—

24 “(1) **IN GENERAL.**—For purposes of this part, an

individual shall not be an eligible individual for the computation year if, for any base period year, such individual (and his spouse) furnished less than one-half of his support.

“(2) EXCEPTIONS.—Paragraph (1) shall not apply to any computation year if—

“(A) such year ends after the individual attained age 25 and, during at least 4 of his taxable years beginning after he attained age 21 and ending with his computation year, he was not a full-time student,

“(B) more than one-half of the individual’s adjusted taxable income for the computation year is attributable to work performed by him in substantial part during 2 or more of the base period years, or

“(C) the individual makes a joint return for the computation year and not more than 25 percent of the aggregate adjusted gross income of such individual and his spouse for the computation year is attributable to such individual.

In applying subparagraph (C), amounts which constitute earned income (within the meaning of section 911 (b)) and are community income under community

1 property laws applicable to such income shall be taken
2 into account as if such amounts did not constitute com-
3 munity income.

4 “(d) STUDENT DEFINED.—For purposes of this sec-
5 tion, the term ‘student’ means, with respect to a taxable year,
6 an individual who during each of 5 calendar months during
7 such taxable year—

8 “(1) was a full-time student at an educational in-
9 stitution (as defined in section 151 (e) (4)) ; or

10 “(2) was pursuing a full-time course of institu-
11 tional on-farm training under the supervision of an ac-
12 credited agent of an educational institution (as defined
13 in section 151 (e) (4)) or of a State or political sub-
14 division of a State.

15 **“SEC. 1304. SPECIAL RULES.**

16 “(a) TAXPAYER MUST CHOOSE BENEFITS.—This part
17 shall apply to the taxable year only if the taxpayer chooses
18 to have the benefits of this part for such taxable year. Such
19 choice may be made or changed at any time before the
20 expiration of the period prescribed for making a claim for
21 credit or refund of the tax imposed by this chapter for the
22 taxable year.

23 “(b) CERTAIN PROVISIONS INAPPLICABLE.—If the
24 taxpayer chooses the benefits of this part for the taxable
25 year, the following provisions shall not apply to him for
26 such year:

1 “(1) section 3 (relating to optional tax if adjusted
2 gross income is less than \$5,000),

3 “(2) section 72 (n) (2) (relating to limitation of
4 tax in case of certain distributions with respect to con-
5 tributions by self-employed individuals),

6 “(3) section 911 (relating to earned income from
7 sources without the United States), and

8 “(4) subpart D of part III of subchapter N (sec.
9 931 and following, relating to income from sources
10 within possessions of the United States).

11 “(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS
12 TO MAKE JOINT RETURN, ETC.—

13 “(1) APPLICATION OF SUBSECTION.—Paragraphs
14 (2), (3), and (4) of this subsection shall apply in the
15 case of any individual who was married for any base
16 period year or the computation year; except that—

17 “(A) such paragraphs shall not apply in re-
18 spect of a base period year if—

19 “(i) such individual and his spouse make
20 a joint return, or such individual makes a re-
21 turn as a surviving spouse (as defined in section
22 2 (b)), for the computation year, and

23 “(ii) such individual was not married to
24 any other spouse for such base period year, and

25 “(B) paragraph (4) shall not apply in respect

1 of the computation year if the individual and his
2 spouse make a joint return for such year.

3 “(2) MINIMUM BASE PERIOD INCOME.—For pur-
4 poses of this part, the base period income of an individual
5 for any base period year shall not be less than 50 percent
6 of the base period income which would result from com-
7 bining his income and deductions for such year—

8 “(A) with the income and deductions for such
9 year of the individual who is his spouse for the
10 computation year, or

11 “(B) if greater, with the income and deduc-
12 tions for such year of the individual who was his
13 spouse for such base period year.

14 “(3) MINIMUM BASE PERIOD CAPITAL GAIN NET
15 INCOME.—For purposes of this part, the capital gain
16 net income of any individual for any base period year
17 shall not be less than 50 percent of the capital gain net
18 income which would result from combining his capital
19 gain net income for such year (determined without re-
20 gard to this paragraph) with the capital gain net income
21 for such year (similarly determined) of the individual
22 with whom he is required by paragraph (2) to combine
23 his income and deductions for such year.

24 “(4) COMMUNITY INCOME ATTRIBUTABLE TO
25 SERVICES.—In the case of amounts which constitute
26 earned income (within the meaning of section 911 (b))

1 and are community income under community property
2 laws applicable to such income—

3 “(A) the amount taken into account for any
4 base period year for purposes of determining base
5 period income shall not be less than the amount
6 which would be taken into account if such amounts
7 did not constitute community income, and

8 “(B) the amount taken into account for pur-
9 poses of determining adjusted taxable income for
10 the computation year shall not exceed the amount
11 which would be taken into account if such amounts
12 did not constitute community income.

13 “(5) MARITAL STATUS.—For purposes of this
14 subsection, section 143 shall apply in determining
15 whether an individual is married for any taxable year.

16 “(d) DOLLAR LIMITATIONS IN CASE OF JOINT RE-
17 TURNS.—In the case of a joint return, the \$3,000 figure con-
18 tained in section 1301 shall be applied to the aggregate
19 averagable income, and the \$3,000 figure contained in sec-
20 tion 1302 (b) (2) (C) shall be applied to the aggregate net
21 incomes.

22 “(e) SPECIAL RULES WHERE THERE ARE CAPITAL
23 GAINS.—

24 “(1) TREATMENT OF CAPITAL GAINS IN COMPU-
25 TATION YEAR.—In the case of any taxpayer who has
26 capital gain net income for the computation year, the

1 tax imposed by section 1 for the computation year
2 which is attributable to the amount of such net income
3 shall be computed—

4 “(A) by adding so much of the amount thereof
5 as does not exceed average base period capital
6 gain net income above $133\frac{1}{3}$ percent of average base
7 period income, and

8 “(B) by adding the remainder (if any) of
9 such net income above the 20 percent of the aver-
10 agable income as taken into account for purposes
11 of computing the tax imposed by section 1 (and
12 above the amounts (if any) referred to in subsec-
13 tion (f) (1)).

14 “(2) COMPUTATION OF ALTERNATIVE TAX.—In
15 the case of any taxpayer who has capital gain net in-
16 come for the computation year, section 1201(b) shall
17 be treated as imposing a tax equal to the tax imposed
18 by section 1, reduced by the amount (if any) by
19 which—

20 “(A) the tax imposed by section 1 and at-
21 tributable to the capital gain net income for the
22 computation year (determined under paragraph
23 (1)), exceeds

24 “(B) the sum of—

25 “(i) 21 percent of the adjusted class A
26 capital gain, and

1 “(ii) 25 percent of the adjusted class B
2 capital gain.

3 “(f) TREATMENT OF CERTAIN OTHER ITEMS.—

4 “(1) GIFT OR WAGERING INCOME.—The tax im-
5 posed by section 1 for the computation year which is
6 attributable to the amounts subtracted from taxable in-
7 come under paragraphs (2) and (3) of section
8 1302 (b) shall equal the increase in tax under section
9 1 which results from adding such amounts above the 20
10 percent of the averagable income as taken into account
11 for purposes of computing the tax imposed thereon by
12 section 1.

13 “(2) SECTION 72 (m) (5).—Section 72 (m) (5)
14 (relating to penalties applicable to certain amounts
15 received by owner-employees) shall be applied as if this
16 part had not been enacted.

17 “(3) OTHER ITEMS.—Except as otherwise provided
18 in this part, the order and manner in which items of in-
19 come shall be taken into account in computing the tax
20 imposed by this chapter on the income of any eligible
21 individual to whom section 1301 applies for any compu-
22 tation year shall be determined under regulations pre-
23 scribed by the Secretary or his delegate.

24 “(g) SHORT TAXABLE YEARS.—In the case of any
25 computation year or base period year which is a short tax-

1 able year, this part shall be applied in the manner provided
 2 in regulations prescribed by the Secretary or his delegate.

3 **“SEC. 1305. REGULATIONS.**

4 “The Secretary or his delegate shall prescribe such regu-
 5 lations as may be necessary to carry out the purposes of this
 6 part.”

7 (b) REPEAL OF SECTION 72 (e) (3).—Section 72
 8 (e) (3) (relating to limit on tax attributable to receipt of
 9 lump sum) is hereby repealed.

10 (c) STATUTE OF LIMITATIONS.—Section 6511 (d) (2)
 11 (B) (relating to special period of limitation with respect to
 12 net operating loss carrybacks) is amended to read as follows:

13 “(B) APPLICABLE RULES.—

14 “(i) If the allowance of a credit or refund
 15 of an overpayment of tax attributable to a net
 16 operating loss carryback is otherwise prevented
 17 by the operation of any law or rule of law other
 18 than section 7122, relating to compromises,
 19 such credit or refund may be allowed or made,
 20 if claim therefor is filed within the period pro-
 21 vided in subparagraph (A) of this paragraph.
 22 If the allowance of an application, credit, or re-
 23 fund of a decrease in tax determined under sec-
 24 tion 6411 (b) is otherwise prevented by the
 25 operation of any law or rule of law other than
 26 section 7122, such application, credit, or refund

1 may be allowed or made if application for a ten-
 2 tative carryback adjustment is made within the
 3 period provided in section 6411 (a) . In the
 4 case of any such claim for credit or refund or
 5 any such application for a tentative carryback
 6 adjustment, the determination by any court, in-
 7 cluding the Tax Court, in any proceeding in
 8 which the decision of the court has become final,
 9 shall be conclusive except with respect to the
 10 net operating loss deduction, and the effect of
 11 such deduction, to the extent that such deduc-
 12 tion is affected by a carryback which was not
 13 in issue in such proceeding.

14 “(ii) A claim for credit or refund for a
 15 computation year (as defined in section 1302
 16 (e) (1)) shall be determined to relate to an
 17 overpayment attributable to a net operating loss
 18 carryback when such carryback relates to any
 19 base period year (as defined in section
 20 1302 (e) (3)) .”

21 (d) TECHNICAL AMENDMENTS.—The following pro-
 22 visions are amended by striking out “except that section
 23 72 (e) (3) shall not apply”:

24 (1) The first sentence of section 402 (a) (1) (re-
 25 lating to general rule for taxability of beneficiary of
 26 exempt trust) .

1 (2) The second sentence of section 402 (b) (re-
2 relating to taxability of beneficiary of non-exempt trust).

3 (3) The second sentence of section 402 (d) (re-
4 relating to certain employees' annuities).

5 (4) Section 403 (a) (1) (relating to the general
6 rule for taxability of a beneficiary under a qualified
7 annuity plan).

8 (5) The second sentence of section 403 (b) (1)
9 (relating to general rule for taxability of beneficiary,
10 etc.).

11 (6) The second sentence of section 403 (c) (re-
12 relating to taxability of beneficiary under a nonqualified
13 annuity).

14 (e) CLERICAL AMENDMENTS.—

15 (1) Subsection (f) of section 4 (relating to cross
16 references to rules for optional tax) is amended by
17 adding at the end thereof the following new paragraph:

“(3) For rule that optional tax is not to apply if indi-
vidual chooses the benefits of income averaging, see sec-
tion 1304(b).”

18 (2) Subsection (b) of section 5 (relating to cross
19 references to special limitations on tax) is amended to
20 read as follows:

1 “(b) SPECIAL LIMITATIONS ON TAX.—

 “(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.

 “(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.

 “(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.

 “(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

 “(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347.”

2 (3) The table of parts for subchapter Q of chapter
3 1 is amended by striking out

 “Part I. Income attributable to several taxable years.”

4 and inserting in lieu thereof

 “Part I. Income averaging.”

5 (f) EFFECTIVE DATE.—

6 (1) GENERAL RULE.—Except as provided in para-
7 graph (2), the amendments made by this section shall
8 apply with respect to taxable years beginning after
9 December 31, 1963.

10 (2) INCOME FROM AN EMPLOYMENT.—If, in a
11 taxable year beginning after December 31, 1963, an in-
12 dividual or partnership receives or accrues compensa-
13 tion from an employment (as defined by section 1301
14 (b) of the Internal Revenue Code of 1954 as in effect

1 immediately before the enactment of this Act) and the
 2 employment began before February 6, 1963, the tax
 3 attributable to such compensation may, at the election of
 4 the taxpayer, be computed under the provisions of sec-
 5 tions 1301 and 1307 of such Code as in effect immedi-
 6 ately before the enactment of this Act. If a taxpayer
 7 so elects (at such time and in such manner as the Secre-
 8 tary of the Treasury or his delegate by regulations pre-
 9 scribes), he may not choose for such taxable year the
 10 benefits provided by part I of subchapter Q of chapter 1
 11 of such Code (relating to income averaging) as amended
 12 by this Act.

13 **SEC. 222. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR**
 14 **CORPORATIONS FILING CONSOLIDATED RE-**
 15 **URNS.**

16 (a) **REPEAL OF TAX.**—Subsection (a) of section 1503
 17 (relating to computation and payment of tax in case of con-
 18 solidated returns) is amended to read as follows:

19 “(a) **GENERAL RULE.**—In any case in which a con-
 20 solidated return is made or is required to be made, the tax
 21 shall be determined, computed, assessed, collected, and ad-
 22 justed in accordance with the regulations under section 1502
 23 prescribed before the last day prescribed by law for the filing
 24 of such return.”

25 (b) **TECHNICAL AND CONFORMING AMENDMENTS.**—

26 (1) Section 1503 is amended by striking out sub-

1 sections (b) and (c) and by relettering subsection (d)
2 as subsection (b).

3 (2) Paragraph (3) of section 1503 (b) (as re-
4 lettered by paragraph (1)) is amended to read as
5 follows:

6 “(3) SPECIAL RULES.—

7 “(A) For purposes of paragraph (2), a cor-
8 poration is a regulated public utility only if it
9 is a regulated public utility within the meaning of
10 subparagraph (A) (other than clauses (ii) and
11 (iii) thereof) or (D) of section 7701 (a) (33).
12 For purposes of the preceding sentence, the limita-
13 tion contained in the last two sentences of section
14 7701 (a) (33) shall be applied as if subparagraphs
15 (A) through (F), inclusive, of section 7701 (a)
16 (33) were limited to subparagraphs (A) (i) and
17 (D) thereof.

18 “(B) For purposes of paragraph (2), the
19 foreign countries referred to in this subparagraph
20 include only any country from which any public
21 utility referred to in the first sentence of paragraph
22 (2) derives the principal part of its income.

23 “(C) For purposes of this subsection, the term
24 ‘consolidated taxable income’ means the consolidated
25 taxable income computed without regard to the

1 deduction provided by section 242 for partially tax-
2 exempt interest.”

3 (3) Section 7701 (a) (relating to definitions) is
4 amended by adding at the end thereof the following
5 new paragraph:

6 “(33) REGULATED PUBLIC UTILITY.—The term
7 ‘regulated public utility’ means—

8 “(A) A corporation engaged in the furnishing
9 or sale of—

10 “(i) electric energy, gas, water, or sewer-
11 age disposal services, or

12 “(ii) transportation (not included in sub-
13 paragraph (C)) on an intrastate, suburban,
14 municipal, or interurban electric railroad, on an
15 intrastate, municipal, or suburban trackless
16 trolley system, or on a municipal or suburban
17 bus system, or

18 “(iii) transportation (not included in
19 clause (ii)) by motor vehicle—

20 if the rates for such furnishing or sale, as the case
21 may be, have been established or approved by a
22 State or political subdivision thereof, by an agency
23 or instrumentality of the United States, by a public
24 service or public utility commission or other similar
25 body of the District of Columbia or of any State or
26 political subdivision thereof, or by a foreign country

1 or an agency or instrumentality or political sub-
2 division thereof.

3 “(B) A corporation engaged as a common car-
4 rier in the furnishing or sale of transportation of gas
5 by pipe line, if subject to the jurisdiction of the
6 Federal Power Commission.

7 “(C) A corporation engaged as a common car-
8 rier (i) in the furnishing or sale of transportation by
9 railroad, if subject to the jurisdiction of the Inter-
10 state Commerce Commission, or (ii) in the furnish-
11 ing or sale of transportation of oil or other petroleum
12 products (including shale oil) by pipe line, if sub-
13 ject to the jurisdiction of the Interstate Commerce
14 Commission or if the rates for such furnishing or sale
15 are subject to the jurisdiction of a public service or
16 public utility commission or other similar body of
17 the District of Columbia or of any State.

18 “(D) A corporation engaged in the furnishing
19 or sale of telephone or telegraph service, if the rates
20 for such furnishing or sale meet the requirements of
21 subparagraph (A).

22 “(E) A corporation engaged in the furnishing
23 or sale of transportation as a common carrier by air,
24 subject to the jurisdiction of the Civil Aeronautics
25 Board.

1 “(F) A corporation engaged in the furnishing
2 or sale of transportation by common carrier by
3 water, subject to the jurisdiction of the Interstate
4 Commerce Commission under part III of the Inter-
5 state Commerce Act, or subject to the jurisdiction
6 of the Federal Maritime Board under the Inter-
7 coastal Shipping Act, 1933.

8 “(G) A railroad corporation subject to part I
9 of the Interstate Commerce Act, if (i) substan-
10 tially all of its railroad properties have been leased
11 to another such railroad corporation or corporations
12 by an agreement or agreements entered into before
13 January 1, 1954, (ii) each lease is for a term
14 of more than 20 years, and (iii) at least 80 per-
15 cent or more of its gross income (computed with-
16 out regard to dividends and capital gains and losses)
17 for the taxable year is derived from such leases
18 and from sources described in subparagraphs (A)
19 through (F), inclusive. For purposes of the pre-
20 ceding sentence, an agreement for lease of railroad
21 properties entered into before January 1, 1954,
22 shall be considered to be a lease including such term
23 as the total number of years of such agreement may,
24 unless sooner terminated, be renewed or continued
25 under the terms of the agreement, and any such
26 renewal or continuance under such agreement shall

1 be considered part of the lease entered into before
2 January 1, 1954.

3 “(H) A common parent corporation which is
4 a common carrier by railroad subject to part I of
5 the Interstate Commerce Act if at least 80 percent
6 of its gross income (computed without regard to
7 capital gains or losses) is derived directly or indi-
8 rectly from sources described in subparagraphs (A)
9 through (F), inclusive. For purposes of the pre-
10 ceding sentence, dividends and interest, and income
11 from leases described in subparagraph (G), received
12 from a regulated public utility shall be considered
13 as derived from sources described in subparagraphs
14 (A) through (F), inclusive, if the regulated public
15 utility is a member of an affiliated group (as defined
16 in section 1504) which includes the common parent
17 corporation.

18 The term ‘regulated public utility’ does not (except as
19 provided in subparagraphs (G) and (H)) include a
20 corporation described in subparagraphs (A) through
21 (F), inclusive, unless 80 percent or more of its gross
22 income (computed without regard to dividends and
23 capital gains and losses) for the taxable year is derived
24 from sources described in subparagraphs (A) through
25 (F), inclusive. If the taxpayer establishes to the satis-
26 faction of the Secretary or his delegate that (i) its

1 revenue from regulated rates described in subparagraph
 2 (A) or (D) and its revenue derived from unregulated
 3 rates are derived from the operation of a single inter-
 4 connected and coordinated system or from the operation
 5 of more than one such system, and (ii) the unregulated
 6 rates have been and are substantially as favorable to
 7 users and consumers as are the regulated rates, then such
 8 revenue from such unregulated rates shall be considered,
 9 for purposes of the preceding sentence, as income derived
 10 from sources described in subparagraph (A) or (D).”

11 (4) Section 12(8) (relating to cross reference to
 12 additional tax for corporations filing consolidated re-
 13 turns) is hereby repealed.

14 (5) Paragraphs (1) and (2) of section 172(j)
 15 (relating to carryover of net operating loss for certain
 16 regulated transportation corporations) are amended to
 17 read as follows:

18 “(1) DEFINITION.—For purposes of subsection
 19 (b) (1) (C), the term ‘regulated transportation corpo-
 20 ration’ means a corporation—

21 “(A) 80 percent or more of the gross income
 22 of which (computed without regard to dividends
 23 and capital gains and losses) for the taxable year
 24 is derived from the furnishing or sale of transporta-
 25 tion described in subparagraph (A), (C) (i),

1 (E), or (F) of section 7701 (a) (33) and taken
 2 into account for purposes of the limitation contained
 3 in the last two sentences of section 7701 (a) (33),

4 “(B) which is described in subparagraph (G)
 5 or (H) of section 7701 (a) (33), or

6 “(C) which is a member of a regulated trans-
 7 portation system.

8 “(2) REGULATED TRANSPORTATION SYSTEM.—

9 For purposes of this subsection, a corporation shall be
 10 treated as a member of a regulated transportation system
 11 for a taxable year if—

12 “(A) it is a member of an affiliated group of
 13 corporations making a consolidated return for such
 14 taxable year, and

15 “(B) 80 percent or more of the aggregate
 16 gross income of the members of such affiliated group
 17 (computed without regard to dividends and capital
 18 gains and losses) for such taxable year is derived
 19 from sources described in paragraph (1) (A).

20 For purposes of subparagraph (B), income derived by
 21 a corporation described in subparagraph (G) or (H)
 22 of section 7701 (a) (33) from leases described in sub-
 23 paragraph (G) thereof shall be considered as derived
 24 from sources described in paragraph (1) (A).”

25 (6) Section 904 (g) (2) (relating to cross refer-

1 ences for purposes of the limitation on the foreign tax
 2 credit) is amended by striking out “section 1503(d)”
 3 and inserting in lieu thereof “section 1503(b)”.

4 (7) Section 1341 (b) (2) (relating to special
 5 rules for the computation of tax where taxpayer restores
 6 substantial amount held under claim of right) is amended
 7 by striking out “(as defined in section 1503 (c) without
 8 regard to paragraph (2) thereof)” and inserting in lieu
 9 thereof “(as defined in section 7701 (a) (33) without
 10 regard to the limitation contained in the last two sen-
 11 tences thereof)”.

12 (8) Section 1552 (a) (3) (relating to the alloca-
 13 tion of tax liability among members of an affiliated group
 14 of corporations filing consolidated returns) is amended
 15 by striking out “(determined without regard to the 2
 16 percent increase provided by section 1503 (a))”.

17 (c) EFFECTIVE DATE.—The amendments made by
 18 subsections (a) and (b) shall apply with respect to taxable
 19 years beginning after December 31, 1963.

20 **SEC. 223. REDUCTION OF SURTAX EXEMPTION IN CASE OF**
 21 **CERTAIN CONTROLLED CORPORATIONS, ETC.**

22 (a) IN GENERAL.—Subchapter B of chapter 6 (related
 23 rules for consolidated returns) is amended by adding at the
 24 end thereof the following new part:

1 **"PART II—CERTAIN CONTROLLED CORPORATIONS**

"Sec. 1561. Surtax exemptions in case of certain controlled corporations.

"Sec. 1562. Privilege of groups to elect multiple surtax exemptions.

"Sec. 1563. Definitions and special rules.

2 **"SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN** 3 **CONTROLLED CORPORATIONS.**

4 “(a) **GENERAL RULE.**—If a corporation is a component
5 member of a controlled group of corporations on a Decem-
6 ber 31, then for purposes of this subtitle the surtax exemp-
7 tion of such corporation for the taxable year which includes
8 such December 31 shall be an amount equal to—

9 “(1) \$25,000 divided by the number of corpora-
10 tions which are component members of such group on
11 such December 31, or

12 “(2) if all such component members consent (at
13 such time and in such manner as the Secretary or his
14 delegate shall by regulations prescribe) to an apporportion-
15 ment plan, such portion of \$25,000 as is apportioned
16 to such member in accordance with such plan.

17 The sum of the amounts apportioned under paragraph (2)
18 among the component members of any controlled group
19 shall not exceed \$25,000.

20 “(b) **CERTAIN SHORT TAXABLE YEARS.**—If a cor-
21 poration—

1 “(1) has a short taxable year which does not in-
2 clude a December 31, and

3 “(2) is a component member of a controlled group
4 of corporations with respect to such taxable year,
5 then for purposes of this subtitle the surtax exemption of
6 such corporation for such taxable year shall be an amount
7 equal to \$25,000 divided by the number of corporations
8 which are component members of such group on the last
9 day of such taxable year. For purposes of the preceding
10 sentence, section 1563 (b) shall be applied as if such last
11 day were substituted for December 31.

12 **“SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE**
13 **SURTAX EXEMPTIONS.**

14 “(a) **ELECTION OF MULTIPLE SURTAX EXEMP-**
15 **TIONS.—**

16 “(1) **IN GENERAL.—**A controlled group of corpora-
17 tions shall (subject to the provisions of this section) have
18 the privilege of electing to have each of its component
19 members make its returns without regard to section 1561.
20 Such election shall be made with respect to a specified
21 December 31 and shall be valid only if—

22 “(A) each corporation which is a component
23 member of such group on such December 31, and

24 “(B) each other corporation which is a com-
25 ponent member of such group on any succeeding De-

1 cember 31 before the day on which the election is
2 filed,
3 consents to such election.

4 “(2) YEARS FOR WHICH EFFECTIVE.—An election
5 by a controlled group of corporations under paragraph
6 (1) shall be effective with respect to the taxable year of
7 each component member of such group which includes
8 the specified December 31, and each taxable year of each
9 corporation which is a component member of such group
10 (or a successor group) on a succeeding December 31 in-
11 cluded within such taxable year, unless the election is
12 terminated under subsection (c).

13 “(3) EFFECT OF ELECTION.—If an election by a
14 controlled group of corporations under paragraph (1) is
15 effective with respect to any taxable year of a corpora-
16 tion—

17 “(A) section 1561 shall not apply to such
18 corporation for such taxable year, but

19 “(B) the additional tax imposed by subsection
20 (b) shall apply to such corporation for such taxable
21 year.

22 “(b) ADDITIONAL TAX IMPOSED.—

23 “(1) GENERAL RULE.—If an election under sub-
24 section (a) (1) by a controlled group of corporations is
25 effective with respect to the taxable year of a corporation,

1 there is hereby imposed for such taxable year on the
2 taxable income of such corporation a tax equal to 6 per-
3 cent of so much of such corporation's taxable income
4 for such taxable year as does not exceed \$25,000.
5 This paragraph shall not apply to the taxable year of a
6 corporation if no other corporation which is a com-
7 ponent member of such controlled group on the Decem-
8 ber 31 included in such corporation's taxable year has
9 taxable income for its taxable year including such
10 December 31.

11 “(2) TAX TREATED AS IMPOSED BY SECTION 11,
12 ETC.—If for the taxable year of a corporation a tax is
13 imposed by section 11 on the taxable income of such
14 corporation, the additional tax imposed by this sub-
15 section shall be treated for purposes of this title as a
16 tax imposed by section 11. If for the taxable year of
17 a corporation a tax is imposed on the taxable income
18 of such corporation which is computed under any other
19 section by reference to section 11, the additional tax
20 imposed by this subsection shall be treated for purposes
21 of this title as imposed by such other section.

22 “(3) TAXABLE INCOME DEFINED.—For purposes
23 of this subsection, the term ‘taxable income’ means—

24 “(A) in the case of a corporation subject to
25 tax under section 511, its unrelated business tax-
26 able income (within the meaning of section 512) ;

1 “(B) in the case of a life insurance company,
2 its life insurance company taxable income (within
3 the meaning of section 802 (b)) ;

4 “(C) in the case of a regulated investment
5 company, its investment company taxable income
6 (within the meaning of section 852 (b) (2)) ; and

7 “(D) in the case of a real estate investment
8 trust, its real estate investment trust taxable income
9 (within the meaning of section 857 (b) (2)).

10 “(4) SPECIAL RULES.—If for the taxable year
11 an additional tax is imposed on the taxable income of a
12 corporation by this subsection, then sections 244 (re-
13 lating to dividends received on certain preferred stock) ,
14 247 (relating to dividends paid on certain preferred
15 stock of public utilities) , 804 (a) (3) (relating to deduc-
16 tion for partially tax-exempt interest in the case of a
17 life insurance company) , and 922 (relating to special
18 deduction for Western Hemisphere trade corporations)
19 shall be applied without regard to the additional tax
20 imposed by this subsection.

21 “(c) TERMINATION OF ELECTION.—An election by a
22 controlled group of corporations under subsection (a) shall
23 terminate with respect to such group—

24 “(1) CONSENT OF THE MEMBERS.—If such group
25 files a termination of such election with respect to a
26 specified December 31, and—

1 “(A) each corporation which is a component
2 member of such group on such December 31, and

3 “(B) each other corporation which is a com-
4 ponent member of such group on any succeeding
5 December 31 before the day on which the termi-
6 nation is filed,

7 consents to such termination.

8 “(2) REFUSAL BY NEW MEMBER TO CONSENT.—

9 If on December 31 of any year such group includes a
10 component member which—

11 “(A) on the immediately preceding January
12 1 was not a member of such group, and

13 “(B) within the time and in the manner pro-
14 vided by regulations prescribed by the Secretary
15 or his delegate, files a statement that it does not
16 consent to the election.

17 “(3) CONSOLIDATED RETURNS.—If—

18 “(A) a corporation is a component member
19 (determined without regard to section 1563 (b)
20 (3)) of such group on a December 31 included
21 within a taxable year ending on or after January 1,
22 1964, and

23 “(B) such corporation is a member of an
24 affiliated group of corporations which makes a con-

1 solidated return under this chapter (sec. 1501 and
2 following) for such taxable year.

3 “(4) CONTROLLED GROUP NO LONGER IN EXIST-
4 ENCE.—If such group is considered as no longer in
5 existence with respect to any December 31.

6 Such termination shall be effective with respect to the
7 December 31 referred to in paragraph (1) (A), (2), (3),
8 or (4), as the case may be.

9 “(d) ELECTION AFTER TERMINATION.—If an election
10 by a controlled group of corporations is terminated under
11 subsection (c), such group (and any successor group) shall
12 not be eligible to make an election under subsection (a) with
13 respect to any December 31 before the sixth December 31
14 after the December 31 with respect to which such termina-
15 tion was effective.

16 “(e) MANNER AND TIME OF GIVING CONSENT AND
17 MAKING ELECTION, ETC.—An election under subsection
18 (a) (1) or a termination under subsection (c) (1) (and
19 the consent of each member of a controlled group of corpo-
20 rations which is required with respect to such election
21 or termination) shall be made in such manner as the Secre-
22 tary or his delegate shall by regulations prescribe, and shall
23 be made at any time before the expiration of 3 years after—

1 “(1) in the case of such an election, the
 2 date when the income tax return for the tax-
 3 able year of the component member of the controlled
 4 group which has the taxable year ending first on or after
 5 the specified December 31, is required to be filed (with-
 6 out regard to any extensions of time), and

7 “(2) in the case of such a termination, the spec-
 8 ified December 31 with respect to which such termina-
 9 tion was made.

10 Any consent to such an election or termination, and a failure
 11 by a component member to file a statement that it does not
 12 consent to an election under this section, shall be deemed
 13 to be a consent to the application of subsection (g) (1)
 14 (relating to tolling of statute of limitations on assessment
 15 of deficiencies).

16 “(f) SPECIAL RULES.—For purposes of this section—

17 “(1) CONTINUING AND SUCCESSOR CONTROLLED
 18 GROUPS.—The determination of whether a controlled
 19 group of corporations—

20 “(A) is considered as no longer in existence
 21 with respect to any December 31, or

22 “(B) is a successor to another controlled
 23 group of corporations (and the effect of such deter-
 24 mination with respect to any election or termina-
 25 tion),

1 shall be made under regulations prescribed by the Sec-
2 retary or his delegate. For purposes of subparagraph
3 (B), such regulations shall be based on the continuation
4 (or termination) of predominant equitable ownership.

5 “(2) CERTAIN SHORT TAXABLE YEARS.—If one or
6 more corporations have short taxable years which do not
7 include a December 31 and are component members of
8 a controlled group of corporations with respect to such
9 taxable years (determined by applying section 1563 (b)
10 as if the last day of each such taxable year were sub-
11 stituted for December 31), then an election by such
12 group under this section shall apply with respect to
13 such corporations with respect to such taxable years if—

14 “(A) such election is in effect with respect to
15 both the December 31 immediately preceding such
16 taxable years and the December 31 immediately
17 succeeding such taxable years, or

18 “(B) such election is in effect with respect to
19 the December 31 immediately preceding or succeed-
20 ing such taxable years and each such corporation
21 files a consent to the application of such election
22 to its short taxable year at such time and in such
23 manner as the Secretary or his delegate shall pre-
24 scribe by regulations.

25 “(g) TOLLING OF STATUTE OF LIMITATIONS.—In any

1 case in which a controlled group of corporations makes an
2 election or termination under this section—

3 “(1) the statutory period for assessment of any
4 deficiency against a corporation which is a component
5 member of such group for any taxable year, to the
6 extent such deficiency is attributable to the application
7 of this part, shall not expire before the expiration of
8 one year after the date such election or termination
9 is made; and

10 “(2) if credit or refund of any overpayment of tax
11 by a corporation which is a component member of such
12 group for any taxable year is prevented, at any time on
13 or before the expiration of one year after the date such
14 election or termination is made, by the operation of any
15 law or rule of law, credit or refund of such overpayment
16 may, nevertheless, be allowed or made, to the extent
17 such overpayment is attributable to the application of
18 this part, if claim therefor is filed on or before the ex-
19 piration of such one-year period.

20 **“SEC. 1563. DEFINITIONS AND SPECIAL RULES.**

21 “(a) **CONTROLLED GROUP OF CORPORATIONS.**—For
22 purposes of this part, the term ‘controlled group of corpora-
23 tions’ means any group of—

1 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—

2 One or more chains of corporations connected through
3 stock ownership with a common parent corporation if—

4 “(A) stock possessing at least 80 percent of
5 the total combined voting power of all classes of
6 stock entitled to vote or at least 80 percent of the
7 total value of shares of all classes of stock of each of
8 the corporations, except the common parent cor-
9 poration, is owned (within the meaning of subsec-
10 tion (d) (1)) by one or more of the other corpora-
11 tions; and

12 “(B) the common parent corporation owns
13 (within the meaning of subsection (d) (1))
14 stock possessing at least 80 percent of the total com-
15 bined voting power of all classes of stock entitled to
16 vote or at least 80 percent of the total value of
17 shares of all classes of stock of at least one of the
18 other corporations, excluding, in computing such
19 voting power or value, stock owned directly by
20 such other corporations.

21 “(2) BROTHER-SISTER CONTROLLED GROUP.—

22 Two or more corporations if stock possessing at least
23 80 percent of the total combined voting power of all

1 classes of stock entitled to vote or at least 80 percent of
2 the total value of shares of all classes of stock of each
3 of the corporations is owned (within the meaning of
4 subsection (d) (2)) by one person who is an individ-
5 ual, estate, or trust.

6 “(3) COMBINED GROUP.—Three or more corpora-
7 tions each of which is a member of a group of corpora-
8 tions described in paragraph (1) or (2), and one of
9 which—

10 “(A) is a common parent corporation included
11 in a group of corporations described in paragraph
12 (1), and also

13 “(B) is included in a group of corporations
14 described in paragraph (2).

15 “(4) CERTAIN INSURANCE COMPANIES.—Two
16 or more insurance companies subject to taxation under
17 section 802 which are members of a controlled group
18 of corporations described in paragraph (1), (2), or
19 (3). Such insurance companies shall be treated as a con-
20 trolled group of corporations separate from any other cor-
21 porations which are members of the controlled group of
22 corporations described in paragraph (1), (2), or (3).

23 “(b) COMPONENT MEMBER.—

24 “(1) GENERAL RULE.—For purposes of this part,
25 a corporation is a component member of a controlled

1 group of corporations on a December 31 of any taxable
2 year (and with respect to the taxable year which in-
3 cludes such December 31) if such corporation—

4 “(A) is a member of such controlled group of
5 corporations on the December 31 included in such
6 year and is not treated as an excluded member
7 under paragraph (2), or

8 “(B) is not a member of such controlled group
9 of corporations on the December 31 included in such
10 year but is treated as an additional member under
11 paragraph (3).

12 “(2) EXCLUDED MEMBERS.—A corporation which
13 is a member of a controlled group of corporations on
14 December 31 of any taxable year shall be treated as an
15 excluded member of such group for the taxable year
16 including such December 31 if such corporation—

17 “(A) is a member of such group for less than
18 one-half the number of days in such taxable year
19 which precede such December 31,

20 “(B) is exempt from taxation under section
21 501 (a) (except a corporation which is subject to
22 tax on its unrelated business taxable income under
23 section 511) for such taxable year,

24 “(C) is a foreign corporation subject to tax
25 under section 881 for such taxable year,

1 “(D) is an insurance company subject to
2 taxation under section 802 or section 821 (other
3 than an insurance company which is a member of a
4 controlled group described in subsection (a) (4)),
5 or

6 “(E) is a franchised corporation, as defined
7 in subsection (f) (4) .

8 “(3) ADDITIONAL MEMBERS.—A corporation
9 which—

10 “(A) was a member of a controlled group of
11 corporations at any time during a calendar year,

12 “(B) is not a member of such group on De-
13 cember 31 of such calendar year, and

14 “(C) is not described, with respect to such
15 group, in subparagraph (B), (C), (D), or (E)
16 of paragraph (2) ,

17 shall be treated as an additional member of such group
18 on December 31 for its taxable year including such
19 December 31 if it was a member of such group for
20 one-half (or more) of the number of days in such tax-
21 able year which precede such December 31.

22 “(4) OVERLAPPING GROUPS.—If a corporation is
23 a component member of more than one controlled group
24 of corporations with respect to any taxable year, such

1 corporation shall be treated as a component member of
2 only one controlled group. The determination as to the
3 group of which such corporation is a component member
4 shall be made under regulations prescribed by the Secre-
5 tary or his delegate which are consistent with the pur-
6 poses of this part.

7 “(c) CERTAIN STOCK EXCLUDED.—

8 “(1) GENERAL RULE.—For purposes of this part,
9 the term ‘stock’ does not include—

10 “(A) nonvoting stock which is limited and
11 preferred as to dividends,

12 “(B) treasury stock, and

13 “(C) stock which is treated as ‘excluded stock’
14 under paragraph (2).

15 “(2) STOCK TREATED AS ‘EXCLUDED STOCK’.—

16 “(A) PARENT-SUBSIDIARY CONTROLLED
17 GROUP.—For purposes of subsection (a) (1), if a
18 corporation (referred to in this paragraph as ‘parent
19 corporation’) owns (within the meaning of subsec-
20 tions (d) (1) and (e) (4)), 50 percent or more of
21 the total combined voting power of all classes of
22 stock entitled to vote or 50 percent or more of the
23 total value of shares of all classes of stock in another
24 corporation (referred to in this paragraph as ‘sub-

1 subsidiary corporation'), the following stock of the sub-
2 subsidiary corporation shall be treated as excluded
3 stock—

4 “(i) stock in the subsidiary corporation
5 held by a trust which is part of a plan of de-
6 ferred compensation for the benefit of the em-
7 ployees of the parent corporation or the
8 subsidiary corporation,

9 “(ii) stock in the subsidiary corporation
10 owned by an individual (within the meaning
11 of subsection (d) (2), but not including stock
12 owned by the parent corporation which is con-
13 structively owned by such individual) who is
14 a principal stockholder or officer of the parent
15 corporation. For purposes of this clause, the
16 term ‘principal stockholder’ of a corporation
17 means an individual who owns (within the
18 meaning of subsection (d) (2)) 5 percent or
19 more of the total combined voting power of all
20 classes of stock entitled to vote or 5 percent
21 or more of the total value of shares of all
22 classes of stock in such corporation; or

23 “(iii) stock in the subsidiary corporation
24 owned (within the meaning of subsection (d)
25 (2)) by an employee of the subsidiary corpora-

tion if such stock is subject to conditions which run in favor of such parent (or subsidiary) corporation and which substantially restrict or limit the employee's right (or if the employee constructively owns such stock, the direct owner's right) to dispose of such stock.

“(B) BROTHER-SISTER CONTROLLED GROUP.—

For purposes of subsection (a) (2), if a person who is an individual, estate, or trust (referred to in this paragraph as ‘common owner’) owns (within the meaning of subsection (d) (2)), 50 percent or more of the total combined voting power of all classes of stock entitled to vote or 50 percent or more of the total value of shares of all classes of stock in a corporation, the following stock of such corporation shall be treated as excluded stock—

“(i) stock in such corporation held by an employees' trust described in section 401 (a) which is exempt from tax under section 501 (a), if such trust is for the benefit of the employees of such corporation, or

“(ii) stock in such corporation owned (within the meaning of subsection (d) (2)) by an employee of the corporation if such stock is subject to conditions which run in favor of such

1 common owner (or such corporation) and
 2 which substantially restrict or limit the em-
 3 ployee's right (or if the employee construc-
 4 tively owns such stock, the direct owner's
 5 right) to dispose of such stock. If a condition
 6 which limits or restricts the employee's right
 7 (or the direct owner's right) to dispose of such
 8 stock also applies to the stock held by the com-
 9 mon owner pursuant to a bona fide reciprocal
 10 stock purchase arrangement, such condition
 11 shall not be treated as one which restricts or
 12 limits the employee's right to dispose of such
 13 stock.

14 “(d) RULES FOR DETERMINING STOCK OWNERSHIP.—

15 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—

16 For purposes of determining whether a corporation
 17 is a member of a parent-subsubsidiary controlled group
 18 of corporations (within the meaning of subsection
 19 (a) (1)), stock owned by a corporation means—

20 “(A) stock owned directly by such corpora-
 21 tion, and

22 “(B) stock owned with the application of sub-
 23 section (e) (1).

24 “(2) BROTHER-SISTER CONTROLLED GROUP.—

25 For purposes of determining whether a corporation is

1 a member of a brother-sister controlled group of
2 corporations (within the meaning of subsection (a)
3 (2)), stock owned by a person who is an individual,
4 estate, or trust means—

5 “(A) stock owned directly by such person,
6 and

7 “(B) stock owned with the application of
8 subsection (e).

9 “(e) CONSTRUCTIVE OWNERSHIP.—

10 “(1) OPTIONS.—If any person has an option to
11 acquire stock, such stock shall be considered as owned by
12 such person. For purposes of this paragraph, an option
13 to acquire such an option, and each one of a series of
14 such options, shall be considered as an option to acquire
15 such stock.

16 “(2) ATTRIBUTION FROM PARTNERSHIPS.—Stock
17 owned, directly or indirectly, by or for a partnership
18 shall be considered as owned by any partner having an
19 interest of 5 percent or more in either the capital or
20 profits of the partnership in proportion to his interest in
21 capital or profits, whichever such proportion is the
22 greater.

23 “(3) ATTRIBUTION FROM ESTATES OR TRUSTS.—

24 “(A) Stock owned, directly or indirectly, by
25 or for an estate or trust shall be considered as owned

1 by any beneficiary who has an actuarial interest of 5
2 percent or more in such stock, to the extent of such
3 actuarial interest. For purposes of this subpara-
4 graph, the actuarial interest of each beneficiary shall
5 be determined by assuming the maximum exercise
6 of discretion by the fiduciary in favor of such bene-
7 ficiary and the maximum use of such stock to satisfy
8 his rights as a beneficiary.

9 “(B) Stock owned, directly or indirectly, by
10 or for any portion of a trust of which a person is
11 considered the owner under subpart E of part I of
12 subchapter J (relating to grantors and others treated
13 as substantial owners) shall be considered as owned
14 by such person.

15 “(C) This paragraph shall not apply to
16 stock owned by any employees’ trust described in
17 section 401 (a) which is exempt from tax under
18 section 501 (a).

19 “(4) **ATTRIBUTION FROM CORPORATIONS.**—Stock
20 owned, directly or indirectly, by or for a corporation
21 shall be considered as owned by any person who owns
22 (within the meaning of subsection (d)) 5 percent
23 or more in value of its stock in that proportion which
24 the value of the stock which such person so owns bears
25 to the value of all the stock in such corporation.

1 “(5) SPOUSE.—An individual shall be considered
2 as owning stock in a corporation owned, directly or indi-
3 rectly, by or for his spouse (other than a spouse who is
4 legally separated from the individual under a decree of
5 divorce whether interlocutory or final, or a decree of
6 separate maintenance), except in the case of a corpora-
7 tion with respect to which each of the following condi-
8 tions is satisfied for its taxable year—

9 “(A) The individual does not, at any time
10 during such taxable year, own directly any stock
11 in such corporation;

12 “(B) The individual is not a director or em-
13 ployee and does not participate in the management
14 of such corporation at any time during such taxable
15 year;

16 “(C) Not more than 50 percent of such corpo-
17 ration’s gross income for such taxable year was
18 derived from royalties, rents, dividends, interest,
19 and annuities; and

20 “(D) The stock in such corporation is not, at
21 any time during such taxable year, subject to con-
22 ditions which substantially restrict or limit the
23 spouse’s right to dispose of such stock and which
24 run in favor of the individual or his children who
25 have not attained the age of 21 years.

1 “(6) CHILDREN, GRANDCHILDREN, PARENTS, AND
2 GRANDPARENTS.—

3 “(A) MINOR CHILDREN.—An individual shall
4 be considered as owning stock owned, directly or
5 indirectly, by or for his children who have not
6 attained the age of 21 years, and, if the individual
7 has not attained the age of 21 years, the stock
8 owned, directly or indirectly, by or for his parents.

9 “(B) ADULT CHILDREN AND GRANDCHIL-
10 DREN.—An individual who owns (within the mean-
11 ing of subsection (d) (2), but without regard to
12 this subparagraph) more than 50 percent of the
13 total combined voting power of all classes of stock
14 entitled to vote or more than 50 percent of the
15 total value of shares of all classes of stock in a cor-
16 poration shall be considered as owning the stock
17 in such corporation owned, directly or indirectly,
18 by or for his parents, grandparents, grandchildren,
19 and children who have attained the age of 21 years.

20 For purposes of this section, a legally adopted child of an
21 individual shall be treated as a child of such individual by
22 blood.

1 “(f) OTHER DEFINITIONS AND RULES.—

2 “(1) EMPLOYEE DEFINED.—For purposes of this
3 section the term ‘employee’ has the same meaning such
4 term is given in section 3306 (i) .

5 “(2) OPERATING RULES.—

6 “(A) IN GENERAL.—Except as provided in
7 subparagraph (B), stock constructively owned by
8 a person by reason of the application of paragraph
9 (1), (2), (3), (4), (5), or (6) of subsection
10 (e) shall, for purposes of applying such paragraphs,
11 be treated as actually owned by such person.

12 “(B) MEMBERS OF FAMILY.—Stock construc-
13 tively owned by an individual by reason of the ap-
14 plication of paragraph (5) or (6) of subsection
15 (e) shall not be treated as owned by him for pur-
16 poses of again applying such paragraphs in order
17 to make another the constructive owner of such
18 stock.

19 “(3) SPECIAL RULES.—For purposes of this
20 section—

21 “(A) If stock may be considered as owned by
22 a person under subsection (e) (1) and under

1 any other paragraph of subsection (e), it shall be
 2 considered as owned by him under subsection
 3 (e) (1).

4 “(B) If stock is owned (within the meaning
 5 of subsection (d)) by two or more persons, such
 6 stock shall be considered as owned by the person
 7 whose ownership of such stock results in the cor-
 8 poration being a component member of a controlled
 9 group. If by reason of the preceding sentence, a
 10 corporation would (but for this sentence) become a
 11 component member of two controlled groups, it
 12 shall be treated as a component member of one
 13 controlled group. The determination as to the
 14 group of which such corporation is a component
 15 member shall be made under regulations prescribed
 16 by the Secretary or his delegate which are con-
 17 sistent with the purposes of this part.

18 “(4) FRANCHISED CORPORATION.—If—

19 “(A) a parent corporation (as defined in sub-
 20 section (c) (2) (A)), or a common owner (as de-
 21 fined in subsection (c) (2) (B)), of a controlled
 22 group of corporations is under a duty (arising out
 23 of a written agreement) to sell stock of a cor-
 24 poration (referred to in this paragraph as ‘fran-
 25 chised corporation’) which is franchised to sell the

1 products of another member, or the common owner,
2 of such controlled group;

3 “(B) such stock is to be sold to an employee
4 (or employees) of such franchised corporation pur-
5 suant to a bona fide plan designed to eliminate the
6 stock ownership of the parent corporation or of the
7 common owner in the franchised corporation;

8 “(C) such plan—

9 “(i) provides a reasonable selling price for
10 such stock, and

11 “(ii) requires that a portion of the em-
12 ployee’s share of the profits of such corporation
13 (whether received as compensation or as a
14 dividend) be applied to the purchase of such
15 stock (or the purchase of notes, bonds, de-
16 bentures or other similar evidence of indebted-
17 ness of such franchised corporation held by
18 such parent corporation or common owner) ;

19 “(D) such employee (or employees) owns
20 directly more than 20 percent of the total value
21 of shares of all classes of stock in such franchised
22 corporation;

23 “(E) more than 50 percent of the inventory
24 of such franchised corporation is acquired from

1 members of the controlled group, the common
2 owner, or both; and

3 “(F) all of the conditions contained in sub-
4 paragraphs (A), (B), (C), (D), and (E) have
5 been met for one-half (or more) of the number
6 of days preceding the December 31 included within
7 the taxable year (or if the taxable year does not
8 include December 31, the last day of such year)
9 of the franchised corporation,

10 then such franchised corporation shall be treated as an
11 excluded member of such group, under subsection (b)
12 (2), for such taxable year.”

13 (b) **DISALLOWANCE OF SURTAX EXEMPTION AND**
14 **ACCUMULATED EARNINGS CREDIT.**—Section 1551 (relat-
15 ing to disallowance of surtax exemption and accumulated
16 earnings credit) is amended to read as follows:

17 **“SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND**
18 **ACCUMULATED EARNINGS CREDIT.**

19 “(a) **IN GENERAL.**—If—

20 “(1) any corporation transfers, on or after Janu-
21 ary 1, 1951, and on or before June 12, 1963, all or
22 part of its property (other than money) to a transferee
23 corporation,

24 “(2) any corporation transfers, directly or indi-

rectly, after June 12, 1963, all or part of its property
(other than money) to a transferee corporation, or

“(3) five or fewer individuals who are in control
of a corporation transfer, directly or indirectly, after
June 12, 1963, property (other than money) to a
transferee corporation,

and the transferee corporation was created for the purpose
of acquiring such property or was not actively engaged in
business at the time of such acquisition, and if after such
transfer the transferor or transferors are in control of such
transferee corporation during any part of the taxable year
of such transferee corporation, then for such taxable year of
such transferee corporation the Secretary or his delegate
may (except as may be otherwise determined under
subsection (d)) disallow the surtax exemption (as defined
in section 11 (d)), or the \$100,000 accumulated earnings
credit provided in paragraph (2) or (3) of section 535 (c),
unless such transferee corporation shall establish by the clear
preponderance of the evidence that the securing of such
exemption or credit was not a major purpose of such
transfer.

“(b) CONTROL.—For purposes of subsection (a), the
term ‘control’ means—

“(1) With respect to a transferee corporation de-

1 scribed in subsection (a) (1) or (2), the ownership by
2 the transferor corporation, its shareholders, or both, of
3 stock possessing at least 80 percent of the total combined
4 voting power of all classes of stock entitled to vote or at
5 least 80 percent of the total value of shares of all classes
6 of the stock; or

7 “(2) With respect to each corporation described in
8 subsection (a) (3), the ownership by the five or fewer
9 individuals described in such subsection of stock possess-
10 ing—

11 “(A) at least 80 percent of the total combined
12 voting power of all classes of stock entitled to vote or
13 at least 80 percent of the total value of shares of all
14 classes of the stock of each corporation, and

15 “(B) more than 50 percent of the total combined
16 voting power of all classes of stock entitled to vote
17 or at least 50 percent of the total value of shares
18 of all classes of stock of each corporation, taking
19 into account the stock ownership of each such in-
20 dividual only to the extent such stock ownership is
21 identical with respect to each such corporation.

1 For purposes of this subsection, section 1563 (e) shall apply
 2 in determining the ownership of stock.

3 “(c) CORPORATIONS ELECTING MULTIPLE SURTAX
 4 EXEMPTIONS.—If the surtax exemption is disallowed to a
 5 transferee corporation for any taxable year, section 1562 (b)
 6 shall not apply with respect to such transferee corporation
 7 for such taxable year.

8 “(d) AUTHORITY OF THE SECRETARY UNDER THIS
 9 SECTION.—The provisions of section 269 (b), and the au-
 10 thority of the Secretary under such section, shall, to the ex-
 11 tent not inconsistent with the provisions of this section, be
 12 applicable to this section.”

13 (c) TECHNICAL AMENDMENTS.—

14 (1) AMENDMENT OF SECTION 802.—The second
 15 sentence of section 802 (a) (1) (relating to tax on life
 16 insurance companies) is amended to read as follows:
 17 “Such tax shall consist of a normal tax and surtax com-
 18 puted as provided in section 11 as though the life insur-
 19 ance company taxable income were the taxable income
 20 referred to in section 11.”

1 (2) AMENDMENT OF SECTION 269.—Section 269

2 (a) (relating to acquisitions made to evade or avoid
3 income tax) is amended—

4 (A) by striking out “then such deduction,
5 credit, or other allowance shall not be allowed” at
6 the end of the first sentence and inserting in lieu
7 thereof “then the Secretary or his delegate may
8 disallow such deduction, credit, or other allow-
9 ance”; and

10 (B) by adding at the end thereof the follow-
11 ing new subsection:

12 “(d) CORPORATIONS ELECTING MULTIPLE SURTAX
13 EXEMPTIONS.—If the surtax exemption is disallowed to an
14 acquired corporation under subsection (a) for any taxable
15 year, section 1562 (b) shall not apply with respect to such
16 acquired corporation for such taxable year.”

17 (3) SPECIAL RULE FOR 52-53-WEEK YEAR.—Sec-
18 tion 441 (f) (2) (A) (relating to effective date with
19 respect to special rules for 52-53-week year) is amended

by striking out “In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning or ending with reference to a specified date” and inserting in lieu thereof “In any case in which the effective date or the applicability of any provision of this title is expressed in terms of taxable years beginning, including, or ending with reference to a specified date”.

(4) Subchapter B of chapter 6 is amended by inserting after the heading and before the table of sections the following:

“Part I. In general.

“Part II. Certain controlled corporations.

“PART I—IN GENERAL”

(d) **EFFECTIVE DATE.**—The amendments made by subsections (a) and (c) shall apply with respect to taxable years ending after December 31, 1963. The amendment made by subsection (b) shall apply with respect to transfers made after June 12, 1963.

1 **Title III—Optional Tax On Individuals;**
2 **Collection Of Income Tax At Source**
3 **On Wages**

4 **SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
5 **LESS THAN \$5,000.**

6 (a) **OPTIONAL TAX.**—Section 3 (relating to optional
7 tax if adjusted gross income is less than \$5,000) is amended
8 to read as follows:

9 **“SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
10 **LESS THAN \$5,000.**

11 “(a) **TAXABLE YEARS BEGINNING IN 1964.**—In lieu
12 of the tax imposed by section 1, there is hereby imposed for
13 each taxable year beginning on or after January 1, 1964,
14 and before January 1, 1965, on the taxable income of every
15 individual whose adjusted gross income for such year is less
16 than \$5,000 and who has elected for such year to pay the
17 tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$261	\$140	\$26	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	266	144	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	270	148	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	275	152	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	279	156	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	284	160	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	288	165	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	293	169	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	297	173	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	302	178	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	306	182	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	311	187	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	315	191	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	320	195	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	324	200	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	329	204	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	333	208	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	338	213	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	343	217	99	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	348	222	103	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	353	226	107	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	358	230	111	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	365	237	117	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	374	246	125	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	383	255	134	20	0	0	0
1,500	1,525	99	0	0	0	3,150	3,200	392	264	142	28	0	0	0
1,525	1,550	103	0	0	0	3,200	3,250	401	273	150	36	0	0	0
1,550	1,575	107	0	0	0	3,250	3,300	410	282	158	44	0	0	0
1,575	1,600	111	0	0	0	3,300	3,350	419	291	167	52	0	0	0
1,600	1,625	115	2	0	0	3,350	3,400	428	300	176	60	0	0	0
1,625	1,650	119	6	0	0	3,400	3,450	437	309	184	68	0	0	0
1,650	1,675	123	10	0	0	3,450	3,500	446	318	193	76	0	0	0
1,675	1,700	127	14	0	0	3,500	3,550	455	327	202	84	0	0	0
1,700	1,725	132	18	0	0	3,550	3,600	464	336	211	92	0	0	0
1,725	1,750	136	22	0	0	3,600	3,650	473	345	219	101	0	0	0
1,750	1,775	140	26	0	0	3,650	3,700	482	355	228	109	0	0	0
1,775	1,800	144	30	0	0	3,700	3,750	491	365	237	117	4	0	0
1,800	1,825	148	34	0	0	3,750	3,800	500	375	246	125	12	0	0
1,825	1,850	152	38	0	0	3,800	3,850	509	385	255	134	20	0	0
1,850	1,875	156	42	0	0	3,850	3,900	518	395	264	142	28	0	0
1,875	1,900	160	46	0	0	3,900	3,950	527	405	273	150	36	0	0
1,900	1,925	165	50	0	0	3,950	4,000	536	415	282	158	44	0	0
1,925	1,950	169	54	0	0	4,000	4,050	545	425	291	167	52	0	0
1,950	1,975	173	58	0	0	4,050	4,100	554	434	300	176	60	0	0
1,975	2,000	178	62	0	0	4,100	4,150	563	443	309	184	68	0	0
2,000	2,025	182	66	0	0	4,150	4,200	572	452	318	193	76	0	0
2,025	2,050	187	70	0	0	4,200	4,250	581	461	327	202	84	0	0
2,050	2,075	191	74	0	0	4,250	4,300	590	470	336	211	92	0	0
2,075	2,100	195	78	0	0	4,300	4,350	599	479	345	219	101	0	0
2,100	2,125	200	82	0	0	4,350	4,400	608	488	355	228	109	0	0
2,125	2,150	204	86	0	0	4,400	4,450	617	497	365	237	117	4	0
2,150	2,175	208	90	0	0	4,450	4,500	626	506	375	246	125	12	0
2,175	2,200	213	94	0	0	4,500	4,550	635	515	385	255	134	20	0
2,200	2,225	217	99	0	0	4,550	4,600	644	524	395	264	142	28	0
2,225	2,250	222	103	0	0	4,600	4,650	653	533	405	273	150	36	0
2,250	2,275	226	107	0	0	4,650	4,700	662	542	415	282	158	44	0
2,275	2,300	230	111	0	0	4,700	4,750	671	551	425	291	167	52	0
2,300	2,325	235	115	2	0	4,750	4,800	680	560	435	300	176	60	0
2,325	2,350	239	119	6	0	4,800	4,850	689	569	445	309	184	68	0
2,350	2,375	243	123	10	0	4,850	4,900	698	578	455	318	193	76	0
2,375	2,400	248	127	14	0	4,900	4,950	707	587	465	327	202	84	0
2,400	2,425	252	132	18	0	4,950	5,000	716	596	475	336	211	92	0
2,425	2,450	257	136	22	0									

“Table II—Head of Household
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$258	\$138	\$26	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	263	142	30	0	0	0	0
925	950	6	0	0	0	2,500	2,525	267	146	34	0	0	0	0
950	975	10	0	0	0	2,525	2,550	272	150	38	0	0	0	0
975	1,000	14	0	0	0	2,550	2,575	276	154	42	0	0	0	0
1,000	1,025	18	0	0	0	2,575	2,600	280	158	46	0	0	0	0
1,025	1,050	22	0	0	0	2,600	2,625	285	162	50	0	0	0	0
1,050	1,075	26	0	0	0	2,625	2,650	289	167	54	0	0	0	0
1,075	1,100	30	0	0	0	2,650	2,675	293	171	58	0	0	0	0
1,100	1,125	34	0	0	0	2,675	2,700	298	175	62	0	0	0	0
1,125	1,150	38	0	0	0	2,700	2,725	302	180	66	0	0	0	0
1,150	1,175	42	0	0	0	2,725	2,750	307	184	70	0	0	0	0
1,175	1,200	46	0	0	0	2,750	2,775	311	188	74	0	0	0	0
1,200	1,225	50	0	0	0	2,775	2,800	315	193	78	0	0	0	0
1,225	1,250	54	0	0	0	2,800	2,825	320	197	82	0	0	0	0
1,250	1,275	58	0	0	0	2,825	2,850	324	202	86	0	0	0	0
1,275	1,300	62	0	0	0	2,850	2,875	328	206	90	0	0	0	0
1,300	1,325	66	0	0	0	2,875	2,900	333	210	94	0	0	0	0
1,325	1,350	70	0	0	0	2,900	2,925	337	215	98	0	0	0	0
1,350	1,375	74	0	0	0	2,925	2,950	342	219	102	0	0	0	0
1,375	1,400	78	0	0	0	2,950	2,975	347	223	106	0	0	0	0
1,400	1,425	82	0	0	0	2,975	3,000	352	228	110	0	0	0	0
1,425	1,450	86	0	0	0	3,000	3,050	358	234	116	4	0	0	0
1,450	1,475	90	0	0	0	3,050	3,100	367	243	124	12	0	0	0
1,475	1,500	94	0	0	0	3,100	3,150	375	252	132	20	0	0	0
1,500	1,525	98	0	0	0	3,150	3,200	384	261	140	28	0	0	0
1,525	1,550	102	0	0	0	3,200	3,250	392	269	148	36	0	0	0
1,550	1,575	106	0	0	0	3,250	3,300	401	278	156	44	0	0	0
1,575	1,600	110	0	0	0	3,300	3,350	410	287	164	52	0	0	0
1,600	1,625	114	2	0	0	3,350	3,400	418	296	173	60	0	0	0
1,625	1,650	118	6	0	0	3,400	3,450	427	304	182	68	0	0	0
1,650	1,675	122	10	0	0	3,450	3,500	435	313	191	76	0	0	0
1,675	1,700	126	14	0	0	3,500	3,550	444	322	199	84	0	0	0
1,700	1,725	130	18	0	0	3,550	3,600	452	331	208	92	0	0	0
1,725	1,750	134	22	0	0	3,600	3,650	461	340	217	100	0	0	0
1,750	1,775	138	26	0	0	3,650	3,700	469	349	226	108	0	0	0
1,775	1,800	142	30	0	0	3,700	3,750	478	359	234	116	4	0	0
1,800	1,825	146	34	0	0	3,750	3,800	487	368	243	124	12	0	0
1,825	1,850	150	38	0	0	3,800	3,850	495	378	252	132	20	0	0
1,850	1,875	154	42	0	0	3,850	3,900	504	387	261	140	28	0	0
1,875	1,900	158	46	0	0	3,900	3,950	512	397	269	148	36	0	0
1,900	1,925	162	50	0	0	3,950	4,000	521	406	278	156	44	0	0
1,925	1,950	167	54	0	0	4,000	4,050	529	415	287	164	52	0	0
1,950	1,975	171	58	0	0	4,050	4,100	538	424	296	173	60	0	0
1,975	2,000	175	62	0	0	4,100	4,150	546	432	304	182	68	0	0
2,000	2,025	180	66	0	0	4,150	4,200	555	441	313	191	76	0	0
2,025	2,050	184	70	0	0	4,200	4,250	563	449	322	199	84	0	0
2,050	2,075	188	74	0	0	4,250	4,300	572	458	331	208	92	0	0
2,075	2,100	193	78	0	0	4,300	4,350	581	467	340	217	100	0	0
2,100	2,125	197	82	0	0	4,350	4,400	589	475	349	226	108	0	0
2,125	2,150	202	86	0	0	4,400	4,450	598	484	359	234	116	4	0
2,150	2,175	206	90	0	0	4,450	4,500	606	492	368	243	124	12	0
2,175	2,200	210	94	0	0	4,500	4,550	615	501	378	252	132	20	0
2,200	2,225	215	98	0	0	4,550	4,600	623	509	387	261	140	28	0
2,225	2,250	219	102	0	0	4,600	4,650	632	518	397	269	148	36	0
2,250	2,275	223	106	0	0	4,650	4,700	640	526	406	278	156	44	0
2,275	2,300	228	110	0	0	4,700	4,750	649	535	416	287	164	52	0
2,300	2,325	232	114	2	0	4,750	4,800	658	544	425	296	173	60	0
2,325	2,350	237	118	6	0	4,800	4,850	666	552	435	304	182	68	0
2,350	2,375	241	122	10	0	4,850	4,900	675	561	444	313	191	76	0
2,375	2,400	245	126	14	0	4,900	4,950	683	569	454	322	199	84	0
2,400	2,425	250	130	18	0	4,950	5,000	692	578	463	331	208	92	0
2,425	2,450	254	134	22	0									

“Table III—Married Persons Filing JOINT Returns

“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$195	\$82	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
1,950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

“Table IV—Married Persons Filing SEPARATE Returns
“10 PERCENT STANDARD DEDUCTION
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
The tax is—						The tax is—						The tax is—			
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$251	\$147	\$49	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

"Table V—Married Persons Filing SEPARATE Returns
"MINIMUM STANDARD DEDUCTION
"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$270	\$148	\$34	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	275	152	38	0	0	0	0	0
825	850	6	0	0	0	2,450	2,475	279	156	42	0	0	0	0	0
850	875	10	0	0	0	2,475	2,500	284	160	46	0	0	0	0	0
875	900	14	0	0	0	2,500	2,525	288	165	50	0	0	0	0	0
900	925	18	0	0	0	2,525	2,550	293	169	54	0	0	0	0	0
925	950	22	0	0	0	2,550	2,575	297	173	58	0	0	0	0	0
950	975	26	0	0	0	2,575	2,600	302	178	62	0	0	0	0	0
975	1,000	30	0	0	0	2,600	2,625	306	182	66	0	0	0	0	0
1,000	1,025	34	0	0	0	2,625	2,650	311	187	70	0	0	0	0	0
1,025	1,050	38	0	0	0	2,650	2,675	315	191	74	0	0	0	0	0
1,050	1,075	42	0	0	0	2,675	2,700	320	195	78	0	0	0	0	0
1,075	1,100	46	0	0	0	2,700	2,725	324	200	82	0	0	0	0	0
1,100	1,125	50	0	0	0	2,725	2,750	329	204	86	0	0	0	0	0
1,125	1,150	54	0	0	0	2,750	2,775	333	208	90	0	0	0	0	0
1,150	1,175	58	0	0	0	2,775	2,800	338	213	94	0	0	0	0	0
1,175	1,200	62	0	0	0	2,800	2,825	343	217	99	0	0	0	0	0
1,200	1,225	66	0	0	0	2,825	2,850	348	222	103	0	0	0	0	0
1,225	1,250	70	0	0	0	2,850	2,875	353	226	107	0	0	0	0	0
1,250	1,275	74	0	0	0	2,875	2,900	358	230	111	0	0	0	0	0
1,275	1,300	78	0	0	0	2,900	2,925	363	235	115	2	0	0	0	0
1,300	1,325	82	0	0	0	2,925	2,950	368	239	119	6	0	0	0	0
1,325	1,350	86	0	0	0	2,950	2,975	373	243	123	10	0	0	0	0
1,350	1,375	90	0	0	0	2,975	3,000	378	248	127	14	0	0	0	0
1,375	1,400	94	0	0	0	3,000	3,050	385	255	134	20	0	0	0	0
1,400	1,425	99	0	0	0	3,050	3,100	395	264	142	28	0	0	0	0
1,425	1,450	103	0	0	0	3,100	3,150	405	273	150	36	0	0	0	0
1,450	1,475	107	0	0	0	3,150	3,200	415	282	158	44	0	0	0	0
1,475	1,500	111	0	0	0	3,200	3,250	425	291	167	52	0	0	0	0
1,500	1,525	115	2	0	0	3,250	3,300	435	300	176	60	0	0	0	0
1,525	1,550	119	6	0	0	3,300	3,350	445	309	184	68	0	0	0	0
1,550	1,575	123	10	0	0	3,350	3,400	455	318	193	76	0	0	0	0
1,575	1,600	127	14	0	0	3,400	3,450	465	327	202	84	0	0	0	0
1,600	1,625	132	18	0	0	3,450	3,500	475	336	211	92	0	0	0	0
1,625	1,650	136	22	0	0	3,500	3,550	485	345	219	101	4	0	0	0
1,650	1,675	140	26	0	0	3,550	3,600	495	355	228	109	12	0	0	0
1,675	1,700	144	30	0	0	3,600	3,650	505	365	237	117	20	0	0	0
1,700	1,725	148	34	0	0	3,650	3,700	515	375	246	125	28	0	0	0
1,725	1,750	152	38	0	0	3,700	3,750	525	385	255	134	36	0	0	0
1,750	1,775	156	42	0	0	3,750	3,800	535	395	264	142	44	0	0	0
1,775	1,800	160	46	0	0	3,800	3,850	545	405	273	150	52	0	0	0
1,800	1,825	165	50	0	0	3,850	3,900	555	415	282	158	60	0	0	0
1,825	1,850	169	54	0	0	3,900	3,950	565	425	291	167	68	0	0	0
1,850	1,875	173	58	0	0	3,950	4,000	575	435	300	176	76	0	0	0
1,875	1,900	178	62	0	0	4,000	4,050	585	445	309	184	84	0	0	0
1,900	1,925	182	66	0	0	4,050	4,100	595	455	318	193	92	0	0	0
1,925	1,950	187	70	0	0	4,100	4,150	605	465	327	202	101	4	0	0
1,950	1,975	191	74	0	0	4,150	4,200	615	475	336	211	109	12	0	0
1,975	2,000	195	78	0	0	4,200	4,250	625	485	345	219	117	20	0	0
2,000	2,025	200	82	0	0	4,250	4,300	635	495	355	228	125	28	0	0
2,025	2,050	204	86	0	0	4,300	4,350	645	505	365	237	134	36	0	0
2,050	2,075	208	90	0	0	4,350	4,400	655	515	375	246	142	44	0	0
2,075	2,100	213	94	0	0	4,400	4,450	665	525	385	255	150	52	0	0
2,100	2,125	217	99	0	0	4,450	4,500	675	535	395	264	158	60	0	0
2,125	2,150	222	103	0	0	4,500	4,550	685	545	405	273	167	68	0	0
2,150	2,175	226	107	0	0	4,550	4,600	695	555	415	282	176	76	0	0
2,175	2,200	230	111	0	0	4,600	4,650	705	565	425	291	184	84	0	0
2,200	2,225	235	115	2	0	4,650	4,700	715	575	435	300	193	92	0	0
2,225	2,250	239	119	6	0	4,700	4,750	725	585	445	309	202	101	4	0
2,250	2,275	243	123	10	0	4,750	4,800	735	595	455	318	211	109	12	0
2,275	2,300	248	127	14	0	4,800	4,850	746	605	465	327	219	117	20	0
2,300	2,325	252	132	18	0	4,850	4,900	758	615	475	336	228	125	28	0
2,325	2,350	257	136	22	0	4,900	4,950	769	625	485	345	237	134	36	0
2,350	2,375	261	140	26	0	4,950	5,000	781	635	495	355	246	142	44	0
2,375	2,400	266	144	30	0										

1 “(b) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In lieu of the tax imposed by section 1,
3 there is hereby imposed for each taxable year beginning

- 1
- after December 31, 1964, on the taxable income of every
- 2
- individual whose adjusted gross income for such year is
- 3
- less than \$5,000 and who has elected for such year to pay
- 4
- the tax imposed by this section a tax as follows:

“Table I—Single Person—NOT Head of Household

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$236	\$124	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	240	128	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	244	132	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	248	136	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	253	139	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	257	143	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	261	147	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	265	151	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	270	155	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	274	159	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	278	163	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	282	167	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	287	171	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	291	175	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	295	179	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	299	183	76	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	304	187	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	308	191	83	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	312	195	87	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	317	199	91	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	322	203	94	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	327	207	98	0	0	0	0
1,425	1,450	76	0	0	0	3,000	3,050	333	213	104	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	342	221	111	11	0	0	0
1,475	1,500	83	0	0	0	3,100	3,150	350	229	119	18	0	0	0
1,500	1,525	87	0	0	0	3,150	3,200	359	238	126	25	0	0	0
1,525	1,550	91	0	0	0	3,200	3,250	367	246	134	32	0	0	0
1,550	1,575	94	0	0	0	3,250	3,300	376	255	141	39	0	0	0
1,575	1,600	98	0	0	0	3,300	3,350	385	263	149	46	0	0	0
1,600	1,625	102	2	0	0	3,350	3,400	393	272	157	53	0	0	0
1,625	1,650	106	5	0	0	3,400	3,450	402	280	165	60	0	0	0
1,650	1,675	109	9	0	0	3,450	3,500	410	289	173	67	0	0	0
1,675	1,700	113	12	0	0	3,500	3,550	419	297	181	74	0	0	0
1,700	1,725	117	16	0	0	3,550	3,600	427	306	189	81	0	0	0
1,725	1,750	121	19	0	0	3,600	3,650	436	315	197	89	0	0	0
1,750	1,775	124	23	0	0	3,650	3,700	444	324	205	96	0	0	0
1,775	1,800	128	26	0	0	3,700	3,750	453	334	213	104	4	0	0
1,800	1,825	132	30	0	0	3,750	3,800	462	343	221	111	11	0	0
1,825	1,850	136	33	0	0	3,800	3,850	470	353	229	119	18	0	0
1,850	1,875	139	37	0	0	3,850	3,900	479	362	238	126	25	0	0
1,875	1,900	143	40	0	0	3,900	3,950	487	372	246	134	32	0	0
1,900	1,925	147	44	0	0	3,950	4,000	496	381	255	141	39	0	0
1,925	1,950	151	47	0	0	4,000	4,050	504	390	263	149	46	0	0
1,950	1,975	155	51	0	0	4,050	4,100	513	399	272	157	53	0	0
1,975	2,000	159	54	0	0	4,100	4,150	521	407	280	165	60	0	0
2,000	2,025	163	58	0	0	4,150	4,200	530	416	289	173	67	0	0
2,025	2,050	167	61	0	0	4,200	4,250	538	424	297	181	74	0	0
2,050	2,075	171	65	0	0	4,250	4,300	547	433	306	189	81	0	0
2,075	2,100	175	68	0	0	4,300	4,350	556	442	315	197	89	0	0
2,100	2,125	179	72	0	0	4,350	4,400	564	450	324	205	96	0	0
2,125	2,150	183	76	0	0	4,400	4,450	573	459	334	213	104	4	0
2,150	2,175	187	79	0	0	4,450	4,500	581	467	343	221	111	11	0
2,175	2,200	191	83	0	0	4,500	4,550	590	476	353	229	119	18	0
2,200	2,225	195	87	0	0	4,550	4,600	598	484	362	238	126	25	0
2,225	2,250	199	91	0	0	4,600	4,650	607	493	372	246	134	32	0
2,250	2,275	203	94	0	0	4,650	4,700	615	501	381	255	141	39	0
2,275	2,300	207	98	0	0	4,700	4,750	624	510	391	263	149	46	0
2,300	2,325	211	102	2	0	4,750	4,800	633	519	400	272	157	53	0
2,325	2,350	215	106	5	0	4,800	4,850	641	527	410	280	165	60	0
2,350	2,375	219	109	9	0	4,850	4,900	650	536	419	289	173	67	0
2,375	2,400	223	113	12	0	4,900	4,950	658	544	429	297	181	74	0
2,400	2,425	227	117	16	0	4,950	5,000	667	553	438	306	189	81	0
2,425	2,450	231	121	19	0									

“Table II—Head of Household

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$230	\$121	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	408	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	606	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

“Table III—Married Persons Filing JOINT Returns

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$172	\$72	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$226	\$131	\$43	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

“Table V—Married Persons Filing SEPARATE Returns

“MINIMUM STANDARD DEDUCTION

“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$244	\$132	\$30	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	248	136	33	0	0	0	0	0
825	850	5	0	0	0	2,450	2,475	253	139	37	0	0	0	0	0
850	875	9	0	0	0	2,475	2,500	257	143	40	0	0	0	0	0
875	900	12	0	0	0	2,500	2,525	261	147	44	0	0	0	0	0
900	925	16	0	0	0	2,525	2,550	265	151	47	0	0	0	0	0
925	950	19	0	0	0	2,550	2,575	270	155	51	0	0	0	0	0
950	975	23	0	0	0	2,575	2,600	274	159	54	0	0	0	0	0
975	1,000	26	0	0	0	2,600	2,625	278	163	58	0	0	0	0	0
1,000	1,025	30	0	0	0	2,625	2,650	282	167	61	0	0	0	0	0
1,025	1,050	33	0	0	0	2,650	2,675	287	171	65	0	0	0	0	0
1,050	1,075	37	0	0	0	2,675	2,700	291	175	68	0	0	0	0	0
1,075	1,100	40	0	0	0	2,700	2,725	295	179	72	0	0	0	0	0
1,100	1,125	44	0	0	0	2,725	2,750	299	183	76	0	0	0	0	0
1,125	1,150	47	0	0	0	2,750	2,775	304	187	79	0	0	0	0	0
1,150	1,175	51	0	0	0	2,775	2,800	308	191	83	0	0	0	0	0
1,175	1,200	54	0	0	0	2,800	2,825	312	195	87	0	0	0	0	0
1,200	1,225	58	0	0	0	2,825	2,850	317	199	91	0	0	0	0	0
1,225	1,250	61	0	0	0	2,850	2,875	322	203	94	0	0	0	0	0
1,250	1,275	65	0	0	0	2,875	2,900	327	207	98	0	0	0	0	0
1,275	1,300	68	0	0	0	2,900	2,925	331	211	102	2	0	0	0	0
1,300	1,325	72	0	0	0	2,925	2,950	336	215	106	5	0	0	0	0
1,325	1,350	76	0	0	0	2,950	2,975	341	219	109	9	0	0	0	0
1,350	1,375	79	0	0	0	2,975	3,000	346	223	113	12	0	0	0	0
1,375	1,400	83	0	0	0	3,000	3,050	353	229	119	18	0	0	0	0
1,400	1,425	87	0	0	0	3,050	3,100	362	238	126	25	0	0	0	0
1,425	1,450	91	0	0	0	3,100	3,150	372	246	134	32	0	0	0	0
1,450	1,475	94	0	0	0	3,150	3,200	381	255	141	39	0	0	0	0
1,475	1,500	98	0	0	0	3,200	3,250	391	263	149	46	0	0	0	0
1,500	1,525	102	2	0	0	3,250	3,300	400	272	157	53	0	0	0	0
1,525	1,550	106	5	0	0	3,300	3,350	410	280	165	60	0	0	0	0
1,550	1,575	109	9	0	0	3,350	3,400	419	289	173	67	0	0	0	0
1,575	1,600	113	12	0	0	3,400	3,450	429	297	181	74	0	0	0	0
1,600	1,625	117	16	0	0	3,450	3,500	438	306	189	81	0	0	0	0
1,625	1,650	121	19	0	0	3,500	3,550	448	315	197	89	4	0	0	0
1,650	1,675	124	23	0	0	3,550	3,600	457	324	205	96	11	0	0	0
1,675	1,700	128	26	0	0	3,600	3,650	467	334	213	104	18	0	0	0
1,700	1,725	132	30	0	0	3,650	3,700	476	343	221	111	25	0	0	0
1,725	1,750	136	33	0	0	3,700	3,750	486	353	229	119	32	0	0	0
1,750	1,775	139	37	0	0	3,750	3,800	495	362	238	126	39	0	0	0
1,775	1,800	143	40	0	0	3,800	3,850	505	372	246	134	46	0	0	0
1,800	1,825	147	44	0	0	3,850	3,900	514	381	255	141	53	0	0	0
1,825	1,850	151	47	0	0	3,900	3,950	524	391	263	149	60	0	0	0
1,850	1,875	155	51	0	0	3,950	4,000	533	400	272	157	67	0	0	0
1,875	1,900	159	54	0	0	4,000	4,050	543	410	280	165	74	0	0	0
1,900	1,925	163	58	0	0	4,050	4,100	552	419	289	173	81	0	0	0
1,925	1,950	167	61	0	0	4,100	4,150	562	429	297	181	89	4	0	0
1,950	1,975	171	65	0	0	4,150	4,200	571	438	306	189	96	11	0	0
1,975	2,000	175	68	0	0	4,200	4,250	581	448	315	197	104	18	0	0
2,000	2,025	179	72	0	0	4,250	4,300	590	457	324	205	111	25	0	0
2,025	2,050	183	76	0	0	4,300	4,350	600	467	334	213	119	32	0	0
2,050	2,075	187	79	0	0	4,350	4,400	609	476	343	221	126	39	0	0
2,075	2,100	191	83	0	0	4,400	4,450	619	486	353	229	134	46	0	0
2,100	2,125	195	87	0	0	4,450	4,500	628	495	362	238	141	53	0	0
2,125	2,150	199	91	0	0	4,500	4,550	638	505	372	246	149	60	0	0
2,150	2,175	203	94	0	0	4,550	4,600	647	514	381	255	157	67	0	0
2,175	2,200	207	98	0	0	4,600	4,650	657	524	391	263	165	74	0	0
2,200	2,225	211	102	2	0	4,650	4,700	666	533	400	272	173	81	0	0
2,225	2,250	215	106	5	0	4,700	4,750	676	543	410	280	181	89	4	0
2,250	2,275	219	109	9	0	4,750	4,800	685	552	419	289	189	96	11	0
2,275	2,300	223	113	12	0	4,800	4,850	696	562	429	297	197	104	18	0
2,300	2,325	227	117	16	0	4,850	4,900	707	571	438	306	205	111	25	0
2,325	2,350	231	121	19	0	4,900	4,950	718	581	448	315	213	119	32	0
2,350	2,375	236	124	23	0	4,950	5,000	729	590	457	324	221	126	39	0
2,375	2,400	240	128	26	0										0

1 (b) RULES FOR OPTIONAL TAX.—

2 (1) HUSBAND OR WIFE FILING SEPARATE RE-
3 TURNS.—Subsection (c) of section 4 (relating to rules
4 for optional tax) is amended to read as follows:

5 “(c) HUSBAND OR WIFE FILING SEPARATE RE-
6 TURN.—

7 “(1) A husband or wife may not elect to pay the
8 optional tax imposed by section 3 if the tax of the other
9 spouse is determined under section 1 on the basis of tax-
10 able income computed without regard to the standard
11 deduction.

12 “(2) Except as otherwise provided in this subsec-
13 tion, in the case of a husband or wife filing a separate
14 return the tax imposed by section 3 shall be—

15 “(A) for taxable years beginning in 1964, the
16 lesser of the tax shown in Table IV or Table V of
17 section 3 (a), and

18 “(B) for taxable years beginning after Decem-
19 ber 31, 1964, the lesser of the tax shown in Table
20 IV or Table V of section 3 (b).

1 “(3) Neither Table V of section 3 (a) nor Table V
 2 of section 3 (b) shall apply in the case of a husband
 3 or wife filing a separate return if the tax of the other
 4 spouse is determined with regard to the 10-percent
 5 standard deduction; except that an individual described
 6 in section 141 (d) (2) may elect (under regulations
 7 prescribed by the Secretary or his delegate) —

8 “(A) to pay the tax shown in Table V of
 9 section 3 (a) in lieu of the tax shown in Table IV
 10 of section 3 (a), and

11 “(B) to pay the tax shown in Table V of
 12 section 3 (b) in lieu of the tax shown in Table IV
 13 of section 3 (b).

14 For purposes of this title, an election under the pre-
 15 ceding sentence shall be treated as an election made
 16 under section 141 (d) (2).

17 “(4) For purposes of this subsection, determination
 18 of marital status shall be made under section 143.”

19 (2) AMENDMENT OF SECTION 6014.—Section
 20 6014 (a) (relating to income tax return—tax not com-
 21 puted by taxpayer) is amended by adding at the end
 22 thereof the following new sentence: “In the case of a
 23 married individual filing a separate return and electing

1 the benefits of this subsection, neither Table V in section
2 3 (a) nor Table V in section 3 (b) shall apply.”

3 (3) TECHNICAL AMENDMENTS.—

4 (A) Subsection (a) of section 4 (relating to
5 rules for optional tax) is amended by striking out
6 “table” and inserting in lieu thereof “tables”.

7 (B) Section 4 (f) (relating to cross references)
8 is amended by adding at the end thereof the follow-
9 ing new paragraph:

“(4) For nonapplicability of Table V in section 3(a)
and Table V in section 3(b) in case where tax is not com-
puted by taxpayer, see section 6014(a).”

10 (c) EFFECTIVE DATE.—Except for purposes of section
11 21 of the Internal Revenue Code of 1954 (relating to effect
12 of changes in rates during a taxable year), the amendments
13 made by this section shall apply to taxable years beginning
14 after December 31, 1963.

15 SEC. 302. INCOME TAX COLLECTED AT SOURCE.

16 (a) PERCENTAGE METHOD OF WITHHOLDING.—Sub-
17 section (a) of section 3402 (relating to requirement of with-
18 holding) is amended to read as follows:

19 “(a) REQUIREMENT OF WITHHOLDING.—Every em-
20 ployer making payment of wages shall deduct and withhold

1 upon such wages (except as provided in subsection (j)) a
 2 tax equal to the following percentage of the amount by
 3 which the wages exceed the number of withholding exemp-
 4 tions claimed, multiplied by the amount of one such exemp-
 5 tion as shown in subsection (b) (1) :

6 “(1) 15 percent in the case of wages paid during
 7 the calendar year 1964, and

8 “(2) 14 percent in the case of wages paid after
 9 December 31, 1964.”

10 (b) WAGE BRACKET WITHHOLDING.—Paragraph (1)
 11 of section 3402 (c) (relating to wage bracket withholding)
 12 is amended to read as follows:

13 “(1) (A) WAGES PAID DURING CALENDAR YEAR
 14 1964.—At the election of the employer with respect to
 15 any employee, the employer shall deduct and withhold
 16 upon the wages paid to such employee during the cal-
 17 endar year 1964 a tax determined in accordance with
 18 the following tables, which shall be in lieu of the tax
 19 required to be deducted and withheld under subsection
 20 (a) :

"If the payroll period with respect to an employee is weekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$13.....	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$2.00	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.20	.30	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	2.30	.40	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	2.50	.60	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	2.60	.70	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	2.80	.90	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	2.90	1.00	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	3.10	1.20	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	3.20	1.30	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	3.40	1.50	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	3.50	1.60	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	3.70	1.80	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	3.80	1.90	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	4.00	2.10	.10	0	0	0	0	0	0	0	0
\$27.....	\$28.....	4.10	2.20	.30	0	0	0	0	0	0	0	0
\$28.....	\$29.....	4.30	2.40	.40	0	0	0	0	0	0	0	0
\$29.....	\$30.....	4.40	2.50	.60	0	0	0	0	0	0	0	0
\$30.....	\$31.....	4.60	2.70	.70	0	0	0	0	0	0	0	0
\$31.....	\$32.....	4.70	2.80	.90	0	0	0	0	0	0	0	0
\$32.....	\$33.....	4.90	3.00	1.00	0	0	0	0	0	0	0	0
\$33.....	\$34.....	5.00	3.10	1.20	0	0	0	0	0	0	0	0
\$34.....	\$35.....	5.20	3.30	1.30	0	0	0	0	0	0	0	0
\$35.....	\$36.....	5.30	3.40	1.50	0	0	0	0	0	0	0	0
\$36.....	\$37.....	5.50	3.60	1.60	0	0	0	0	0	0	0	0
\$37.....	\$38.....	5.60	3.70	1.80	0	0	0	0	0	0	0	0
\$38.....	\$39.....	5.80	3.90	1.90	0	0	0	0	0	0	0	0
\$39.....	\$40.....	5.90	4.00	2.10	.20	0	0	0	0	0	0	0
\$40.....	\$41.....	6.10	4.20	2.20	.30	0	0	0	0	0	0	0
\$41.....	\$42.....	6.20	4.30	2.40	.50	0	0	0	0	0	0	0
\$42.....	\$43.....	6.40	4.50	2.50	.60	0	0	0	0	0	0	0
\$43.....	\$44.....	6.50	4.60	2.70	.80	0	0	0	0	0	0	0
\$44.....	\$45.....	6.70	4.80	2.80	.90	0	0	0	0	0	0	0
\$45.....	\$46.....	6.80	4.90	3.00	1.10	0	0	0	0	0	0	0
\$46.....	\$47.....	7.00	5.10	3.10	1.20	0	0	0	0	0	0	0
\$47.....	\$48.....	7.10	5.20	3.30	1.40	0	0	0	0	0	0	0
\$48.....	\$49.....	7.30	5.40	3.40	1.50	0	0	0	0	0	0	0
\$49.....	\$50.....	7.40	5.50	3.60	1.70	0	0	0	0	0	0	0
\$50.....	\$51.....	7.60	5.70	3.70	1.80	0	0	0	0	0	0	0
\$51.....	\$52.....	7.70	5.80	3.90	2.00	0	0	0	0	0	0	0
\$52.....	\$53.....	7.90	6.00	4.00	2.10	.20	0	0	0	0	0	0
\$53.....	\$54.....	8.00	6.10	4.20	2.30	.30	0	0	0	0	0	0
\$54.....	\$55.....	8.20	6.30	4.30	2.40	.50	0	0	0	0	0	0
\$55.....	\$56.....	8.30	6.40	4.50	2.60	.60	0	0	0	0	0	0
\$56.....	\$57.....	8.50	6.60	4.60	2.70	.80	0	0	0	0	0	0
\$57.....	\$58.....	8.60	6.70	4.80	2.90	.90	0	0	0	0	0	0
\$58.....	\$59.....	8.80	6.90	4.90	3.00	1.10	0	0	0	0	0	0
\$59.....	\$60.....	8.90	7.00	5.10	3.20	1.20	0	0	0	0	0	0
\$60.....	\$62.....	9.20	7.20	5.30	3.40	1.50	0	0	0	0	0	0
\$62.....	\$64.....	9.50	7.50	5.60	3.70	1.80	0	0	0	0	0	0
\$64.....	\$66.....	9.80	7.80	5.90	4.00	2.10	.10	0	0	0	0	0
\$66.....	\$68.....	10.10	8.10	6.20	4.30	2.40	.40	0	0	0	0	0
\$68.....	\$70.....	10.40	8.40	6.50	4.60	2.70	.70	0	0	0	0	0
\$70.....	\$72.....	10.70	8.70	6.80	4.90	3.00	1.00	0	0	0	0	0
\$72.....	\$74.....	11.00	9.00	7.10	5.20	3.30	1.30	0	0	0	0	0
\$74.....	\$76.....	11.30	9.30	7.40	5.50	3.60	1.60	0	0	0	0	0
\$76.....	\$78.....	11.60	9.60	7.70	5.80	3.90	1.90	0	0	0	0	0
\$78.....	\$80.....	11.90	9.90	8.00	6.10	4.20	2.20	.30	0	0	0	0
\$80.....	\$82.....	12.20	10.20	8.30	6.40	4.50	2.50	.60	0	0	0	0
\$82.....	\$84.....	12.50	10.50	8.60	6.70	4.80	2.80	.90	0	0	0	0
\$84.....	\$86.....	12.80	10.80	8.90	7.00	5.10	3.10	1.20	0	0	0	0
\$86.....	\$88.....	13.10	11.10	9.20	7.30	5.40	3.40	1.50	0	0	0	0
\$88.....	\$90.....	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0	0	0	0
\$90.....	\$92.....	13.70	11.70	9.80	7.90	6.00	4.00	2.10	.20	0	0	0
\$92.....	\$94.....	14.00	12.00	10.10	8.20	6.30	4.30	2.40	.50	0	0	0
\$94.....	\$96.....	14.30	12.30	10.40	8.50	6.60	4.60	2.70	.80	0	0	0
\$96.....	\$98.....	14.60	12.60	10.70	8.80	6.90	4.90	3.00	1.10	0	0	0
\$98.....	\$100.....	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40	0	0	0
\$100.....	\$105.....	15.40	13.50	11.50	9.60	7.70	5.80	3.80	1.90	0	0	0
\$105.....	\$110.....	16.10	14.20	12.30	10.40	8.40	6.50	4.60	2.70	.70	0	0
\$110.....	\$115.....	16.90	15.00	13.00	11.10	9.20	7.30	5.30	3.40	1.50	0	0
\$115.....	\$120.....	17.60	15.70	13.80	11.90	9.90	8.00	6.10	4.20	2.20	.30	0
\$120.....	\$125.....	18.40	16.50	14.50	12.60	10.70	8.80	6.80	4.90	3.00	1.10	0
\$125.....	\$130.....	19.10	17.20	15.30	13.40	11.40	9.50	7.60	5.70	3.70	1.80	0
\$130.....	\$135.....	19.90	18.00	16.00	14.10	12.20	10.30	8.30	6.40	4.50	2.60	.60
\$135.....	\$140.....	20.60	18.70	16.80	14.90	12.90	11.00	9.10	7.20	5.20	3.30	1.40
\$140.....	\$145.....	21.40	19.50	17.50	15.60	13.70	11.80	9.80	7.90	6.00	4.10	2.10
\$145.....	\$150.....	22.10	20.20	18.30	16.40	14.40	12.50	10.60	8.70	6.70	4.80	2.90
\$150.....	\$160.....	23.30	21.30	19.40	17.50	15.60	13.60	11.70	9.80	7.90	5.90	4.00
\$160.....	\$170.....	24.80	22.80	20.90	19.00	17.10	15.10	13.20	11.30	9.40	7.40	5.50
\$170.....	\$180.....	26.30	24.30	22.40	20.50	18.60	16.60	14.70	12.80	10.90	8.90	7.00
\$180.....	\$190.....	27.80	25.80	23.90	22.00	20.10	18.10	16.20	14.30	12.40	10.40	8.50
\$190.....	\$200.....	29.30	27.30	25.40	23.50	21.60	19.60	17.70	15.80	13.90	11.90	10.00
15 percent of the excess over \$200 plus—												
\$200 and over.....		30.00	28.10	26.20	24.20	22.30	20.40	18.50	16.50	14.60	12.70	10.80

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$26	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$28	\$30	4.40	.50	0	0	0	0	0	0	0	0	0
\$30	\$32	4.70	.80	0	0	0	0	0	0	0	0	0
\$32	\$34	5.00	1.10	0	0	0	0	0	0	0	0	0
\$34	\$36	5.30	1.40	0	0	0	0	0	0	0	0	0
\$36	\$38	5.60	1.70	0	0	0	0	0	0	0	0	0
\$38	\$40	5.90	2.00	0	0	0	0	0	0	0	0	0
\$40	\$42	6.20	2.30	0	0	0	0	0	0	0	0	0
\$42	\$44	6.50	2.60	0	0	0	0	0	0	0	0	0
\$44	\$46	6.80	2.90	0	0	0	0	0	0	0	0	0
\$46	\$48	7.10	3.20	0	0	0	0	0	0	0	0	0
\$48	\$50	7.40	3.50	0	0	0	0	0	0	0	0	0
\$50	\$52	7.70	3.80	0	0	0	0	0	0	0	0	0
\$52	\$54	8.00	4.10	.30	0	0	0	0	0	0	0	0
\$54	\$56	8.30	4.40	.60	0	0	0	0	0	0	0	0
\$56	\$58	8.60	4.70	.90	0	0	0	0	0	0	0	0
\$58	\$60	8.90	5.00	1.20	0	0	0	0	0	0	0	0
\$60	\$62	9.20	5.30	1.50	0	0	0	0	0	0	0	0
\$62	\$64	9.50	5.60	1.80	0	0	0	0	0	0	0	0
\$64	\$66	9.80	5.90	2.10	0	0	0	0	0	0	0	0
\$66	\$68	10.10	6.20	2.40	0	0	0	0	0	0	0	0
\$68	\$70	10.40	6.50	2.70	0	0	0	0	0	0	0	0
\$70	\$72	10.70	6.80	3.00	0	0	0	0	0	0	0	0
\$72	\$74	11.00	7.10	3.30	0	0	0	0	0	0	0	0
\$74	\$76	11.30	7.40	3.60	0	0	0	0	0	0	0	0
\$76	\$78	11.60	7.70	3.90	0	0	0	0	0	0	0	0
\$78	\$80	11.90	8.00	4.20	.30	0	0	0	0	0	0	0
\$80	\$82	12.20	8.30	4.50	.60	0	0	0	0	0	0	0
\$82	\$84	12.50	8.60	4.80	.90	0	0	0	0	0	0	0
\$84	\$86	12.80	8.90	5.10	1.20	0	0	0	0	0	0	0
\$86	\$88	13.10	9.20	5.40	1.50	0	0	0	0	0	0	0
\$88	\$90	13.40	9.50	5.70	1.80	0	0	0	0	0	0	0
\$90	\$92	13.70	9.80	6.00	2.10	0	0	0	0	0	0	0
\$92	\$94	14.00	10.10	6.30	2.40	0	0	0	0	0	0	0
\$94	\$96	14.30	10.40	6.60	2.70	0	0	0	0	0	0	0
\$96	\$98	14.60	10.70	6.90	3.00	0	0	0	0	0	0	0
\$98	\$100	14.90	11.00	7.20	3.30	0	0	0	0	0	0	0
\$100	\$102	15.20	11.30	7.50	3.60	0	0	0	0	0	0	0
\$102	\$104	15.50	11.60	7.80	3.90	.10	0	0	0	0	0	0
\$104	\$106	15.80	11.90	8.10	4.20	.40	0	0	0	0	0	0
\$106	\$108	16.10	12.20	8.40	4.50	.70	0	0	0	0	0	0
\$108	\$110	16.40	12.50	8.70	4.80	1.00	0	0	0	0	0	0
\$110	\$112	16.70	12.80	9.00	5.10	1.30	0	0	0	0	0	0
\$112	\$114	17.00	13.10	9.30	5.40	1.60	0	0	0	0	0	0
\$114	\$116	17.30	13.40	9.60	5.70	1.90	0	0	0	0	0	0
\$116	\$118	17.60	13.70	9.90	6.00	2.20	0	0	0	0	0	0
\$118	\$120	17.90	14.00	10.20	6.30	2.50	0	0	0	0	0	0
\$120	\$124	18.30	14.50	10.60	6.80	2.90	0	0	0	0	0	0
\$124	\$128	18.90	15.10	11.20	7.40	3.50	0	0	0	0	0	0
\$128	\$132	19.50	15.70	11.80	8.00	4.10	.30	0	0	0	0	0
\$132	\$136	20.10	16.30	12.40	8.60	4.70	.90	0	0	0	0	0
\$136	\$140	20.70	16.90	13.00	9.20	5.30	1.50	0	0	0	0	0
\$140	\$144	21.30	17.50	13.60	9.80	5.90	2.10	0	0	0	0	0
\$144	\$148	21.90	18.10	14.20	10.40	6.50	2.70	0	0	0	0	0
\$148	\$152	22.50	18.70	14.80	11.00	7.10	3.30	0	0	0	0	0
\$152	\$156	23.10	19.30	15.40	11.60	7.70	3.90	0	0	0	0	0
\$156	\$160	23.70	19.90	16.00	12.20	8.30	4.50	.60	0	0	0	0
\$160	\$164	24.30	20.50	16.60	12.80	8.90	5.10	1.20	0	0	0	0
\$164	\$168	24.90	21.10	17.20	13.40	9.50	5.70	1.80	0	0	0	0
\$168	\$172	25.50	21.70	17.80	14.00	10.10	6.30	2.40	0	0	0	0
\$172	\$176	26.10	22.30	18.40	14.60	10.70	6.90	3.00	0	0	0	0
\$176	\$180	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0	0	0	0
\$180	\$184	27.30	23.50	19.60	15.80	11.90	8.10	4.20	.40	0	0	0
\$184	\$188	27.90	24.10	20.20	16.40	12.50	8.70	4.80	1.00	0	0	0
\$188	\$192	28.50	24.70	20.80	17.00	13.10	9.30	5.40	1.60	0	0	0
\$192	\$196	29.10	25.30	21.40	17.60	13.70	9.90	6.00	2.20	0	0	0
\$196	\$200	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80	0	0	0
\$200	\$210	30.80	26.90	23.10	19.20	15.40	11.50	7.70	3.80	0	0	0
\$210	\$220	32.30	28.40	24.60	20.70	16.90	13.00	9.20	5.30	1.50	0	0
\$220	\$230	33.80	29.90	26.10	22.20	18.40	14.50	10.70	6.80	3.00	0	0
\$230	\$240	35.30	31.40	27.60	23.70	19.90	16.00	12.20	8.30	4.50	.60	0
\$240	\$250	36.80	32.90	29.10	25.20	21.40	17.50	13.70	9.80	6.00	2.10	0
\$250	\$260	38.30	34.40	30.60	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0
\$260	\$270	39.80	35.90	32.10	28.20	24.40	20.50	16.70	12.80	9.00	5.10	1.30
\$270	\$280	41.30	37.40	33.60	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80
\$280	\$290	42.80	38.90	35.10	31.20	27.40	23.50	19.70	15.80	12.00	8.10	4.30
\$290	\$300	44.30	40.40	36.60	32.70	28.90	25.00	21.20	17.30	13.50	9.60	5.80
\$300	\$320	46.50	42.70	38.80	35.00	31.10	27.30	23.40	19.60	15.70	11.90	8.00
\$320	\$340	49.50	45.70	41.80	38.00	34.10	30.30	26.40	22.60	18.70	14.90	11.00
\$340	\$360	52.50	48.70	44.80	41.00	37.10	33.30	29.40	25.60	21.70	17.90	14.00
\$360	\$380	55.50	51.70	47.80	44.00	40.10	36.30	32.40	28.60	24.70	20.90	17.00
\$380	\$400	58.50	54.70	50.80	47.00	43.10	39.30	35.40	31.60	27.70	23.90	20.00
15 percent of the excess over \$400 plus—												
\$400 and over		60.00	56.20	52.30	48.50	44.60	40.80	36.90	33.10	29.20	25.40	21.50

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
		15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$28	\$4.40	.20	0	0	0	0	0	0	0	0	0
\$28	\$30	4.70	.50	0	0	0	0	0	0	0	0	0
\$30	\$32	5.00	.80	0	0	0	0	0	0	0	0	0
\$32	\$34	5.30	1.10	0	0	0	0	0	0	0	0	0
\$34	\$36	5.60	1.40	0	0	0	0	0	0	0	0	0
\$36	\$38	5.90	1.70	0	0	0	0	0	0	0	0	0
\$38	\$40	6.20	2.00	0	0	0	0	0	0	0	0	0
\$40	\$42	6.50	2.30	0	0	0	0	0	0	0	0	0
\$42	\$44	6.80	2.60	0	0	0	0	0	0	0	0	0
\$44	\$46	7.10	2.90	0	0	0	0	0	0	0	0	0
\$46	\$48	7.40	3.20	0	0	0	0	0	0	0	0	0
\$48	\$50	7.70	3.50	0	0	0	0	0	0	0	0	0
\$50	\$52	8.00	3.80	0	0	0	0	0	0	0	0	0
\$52	\$54	8.30	4.10	0	0	0	0	0	0	0	0	0
\$54	\$56	8.60	4.40	.20	0	0	0	0	0	0	0	0
\$56	\$58	8.90	4.70	.50	0	0	0	0	0	0	0	0
\$58	\$60	9.20	5.00	.80	0	0	0	0	0	0	0	0
\$60	\$62	9.50	5.30	1.10	0	0	0	0	0	0	0	0
\$62	\$64	9.80	5.60	1.40	0	0	0	0	0	0	0	0
\$64	\$66	10.10	5.90	1.70	0	0	0	0	0	0	0	0
\$66	\$68	10.40	6.20	2.00	0	0	0	0	0	0	0	0
\$68	\$70	10.70	6.50	2.30	0	0	0	0	0	0	0	0
\$70	\$72	11.00	6.80	2.60	0	0	0	0	0	0	0	0
\$72	\$74	11.30	7.10	2.90	0	0	0	0	0	0	0	0
\$74	\$76	11.60	7.40	3.20	0	0	0	0	0	0	0	0
\$76	\$78	11.90	7.70	3.50	0	0	0	0	0	0	0	0
\$78	\$80	12.20	8.00	3.80	0	0	0	0	0	0	0	0
\$80	\$82	12.50	8.30	4.10	0	0	0	0	0	0	0	0
\$82	\$84	12.80	8.60	4.40	.30	0	0	0	0	0	0	0
\$84	\$86	13.10	8.90	4.70	.60	0	0	0	0	0	0	0
\$86	\$88	13.40	9.20	5.00	.90	0	0	0	0	0	0	0
\$88	\$90	13.70	9.50	5.30	1.20	0	0	0	0	0	0	0
\$90	\$92	14.00	9.80	5.60	1.50	0	0	0	0	0	0	0
\$92	\$94	14.30	10.10	5.90	1.80	0	0	0	0	0	0	0
\$94	\$96	14.60	10.40	6.20	2.10	0	0	0	0	0	0	0
\$96	\$98	14.90	10.70	6.50	2.40	0	0	0	0	0	0	0
\$98	\$100	15.20	11.00	6.80	2.70	0	0	0	0	0	0	0
\$100	\$102	15.50	11.30	7.10	3.00	0	0	0	0	0	0	0
\$102	\$104	15.80	11.60	7.40	3.30	0	0	0	0	0	0	0
\$104	\$106	16.10	11.90	7.70	3.60	0	0	0	0	0	0	0
\$106	\$108	16.40	12.20	8.00	3.90	0	0	0	0	0	0	0
\$108	\$110	16.70	12.50	8.30	4.20	0	0	0	0	0	0	0
\$110	\$112	17.00	12.80	8.60	4.50	.30	0	0	0	0	0	0
\$112	\$114	17.30	13.10	8.90	4.80	.60	0	0	0	0	0	0
\$114	\$116	17.60	13.40	9.20	5.10	.90	0	0	0	0	0	0
\$116	\$118	17.90	13.70	9.50	5.40	1.20	0	0	0	0	0	0
\$118	\$120	18.30	14.10	10.00	5.80	1.60	0	0	0	0	0	0
\$120	\$124	18.90	14.70	10.60	6.40	2.20	0	0	0	0	0	0
\$124	\$128	19.50	15.30	11.20	7.00	2.80	0	0	0	0	0	0
\$128	\$132	20.10	15.90	11.80	7.60	3.40	0	0	0	0	0	0
\$132	\$136	20.70	16.50	12.40	8.20	4.00	0	0	0	0	0	0
\$136	\$140	21.30	17.10	13.00	8.80	4.60	.50	0	0	0	0	0
\$140	\$144	21.90	17.70	13.60	9.40	5.20	1.10	0	0	0	0	0
\$144	\$148	22.50	18.30	14.20	10.00	5.80	1.70	0	0	0	0	0
\$148	\$152	23.10	18.90	14.80	10.60	6.40	2.30	0	0	0	0	0
\$152	\$156	23.70	19.50	15.40	11.20	7.00	2.90	0	0	0	0	0
\$156	\$160	24.30	20.10	16.00	11.80	7.60	3.50	0	0	0	0	0
\$160	\$164	24.90	20.70	16.60	12.40	8.20	4.10	0	0	0	0	0
\$164	\$168	25.50	21.30	17.20	13.00	8.80	4.70	.50	0	0	0	0
\$168	\$172	26.10	21.90	17.80	13.60	9.40	5.30	1.10	0	0	0	0
\$172	\$176	26.70	22.50	18.40	14.20	10.00	5.90	1.70	0	0	0	0
\$176	\$180	27.30	23.10	19.00	14.80	10.60	6.50	2.30	0	0	0	0
\$180	\$184	27.90	23.70	19.60	15.40	11.20	7.10	2.90	0	0	0	0
\$184	\$188	28.50	24.30	20.20	16.00	11.80	7.70	3.50	0	0	0	0
\$188	\$192	29.10	24.90	20.80	16.60	12.40	8.30	4.10	0	0	0	0
\$192	\$196	29.70	25.50	21.40	17.20	13.00	8.90	4.70	.50	0	0	0
\$196	\$200	30.30	26.10	22.00	17.80	13.60	9.50	5.30	1.10	0	0	0
\$200	\$210	32.30	28.10	23.90	19.80	15.60	11.40	7.30	3.10	0	0	0
\$210	\$220	33.80	29.60	25.40	21.30	17.10	12.90	8.80	4.60	.40	0	0
\$220	\$230	35.30	31.10	26.90	22.80	18.60	14.40	10.30	6.10	1.90	0	0
\$230	\$240	36.80	32.60	28.40	24.30	20.10	15.90	11.80	7.60	3.40	0	0
\$240	\$250	38.30	34.10	29.90	25.80	21.60	17.40	13.30	9.10	4.90	.80	0
\$250	\$260	39.80	35.60	31.40	27.30	23.10	18.90	14.80	10.60	6.40	2.30	0
\$260	\$270	41.30	37.10	32.90	28.80	24.60	20.40	16.30	12.10	7.90	3.80	0
\$270	\$280	42.80	38.60	34.40	30.30	26.10	21.90	17.80	13.60	9.40	5.30	1.10
\$280	\$290	44.30	40.10	35.90	31.80	27.60	23.40	19.30	15.10	10.90	6.80	2.60
\$290	\$300	46.50	42.30	38.20	34.00	29.80	25.70	21.50	17.30	13.20	9.00	4.80
\$300	\$320	49.50	45.30	41.20	37.00	32.80	28.70	24.50	20.30	16.20	12.00	7.80
\$320	\$340	52.50	48.30	44.20	40.00	35.80	31.70	27.50	23.30	19.20	15.00	10.80
\$340	\$360	55.50	51.30	47.20	43.00	38.80	34.70	30.50	26.30	22.20	18.00	13.80
\$360	\$380	58.50	54.30	50.20	46.00	41.80	37.70	33.50	29.30	25.20	21.00	16.80
\$380	\$400	61.50	57.30	53.20	49.00	44.80	40.70	36.50	32.30	28.20	24.00	19.80
\$400	\$420	64.50	60.30	56.20	52.00	47.80	43.70	39.50	35.30	31.20	27.00	22.80
\$420	\$440	67.50	63.30	59.20	55.00	50.80	46.70	42.50	38.30	34.20	30.00	25.80
\$440	\$460	70.50	66.30	62.20	58.00	53.80	49.70	45.50	41.30	37.20	33.00	28.80
\$460	\$480	73.50	69.30	65.20	61.00	56.80	52.70	48.50	44.30	40.20	36.00	31.80
\$500 and over		15 percent of the excess over \$500 plus—										
		75.00	70.80	66.70	62.50	58.30	54.20	50.00	45.80	41.70	37.50	33.30

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
\$0	\$56	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$8.70	.40	0	0	0	0	0	0	0	0	0
\$60	\$64	9.30	1.00	0	0	0	0	0	0	0	0	0
\$64	\$68	9.90	1.60	0	0	0	0	0	0	0	0	0
\$68	\$72	10.50	2.20	0	0	0	0	0	0	0	0	0
\$72	\$76	11.10	2.80	0	0	0	0	0	0	0	0	0
\$76	\$80	11.70	3.40	0	0	0	0	0	0	0	0	0
\$80	\$84	12.30	4.00	0	0	0	0	0	0	0	0	0
\$84	\$88	12.90	4.60	0	0	0	0	0	0	0	0	0
\$88	\$92	13.50	5.20	0	0	0	0	0	0	0	0	0
\$92	\$96	14.10	5.80	0	0	0	0	0	0	0	0	0
\$96	\$100	14.70	6.40	0	0	0	0	0	0	0	0	0
\$100	\$104	15.30	7.00	0	0	0	0	0	0	0	0	0
\$104	\$108	15.90	7.60	0	0	0	0	0	0	0	0	0
\$108	\$112	16.50	8.20	0	0	0	0	0	0	0	0	0
\$112	\$116	17.10	8.80	.40	0	0	0	0	0	0	0	0
\$116	\$120	17.70	9.40	1.00	0	0	0	0	0	0	0	0
\$120	\$124	18.30	10.00	1.60	0	0	0	0	0	0	0	0
\$124	\$128	18.90	10.60	2.20	0	0	0	0	0	0	0	0
\$128	\$132	19.50	11.20	2.80	0	0	0	0	0	0	0	0
\$132	\$136	20.10	11.80	3.40	0	0	0	0	0	0	0	0
\$136	\$140	20.70	12.40	4.00	0	0	0	0	0	0	0	0
\$140	\$144	21.30	13.00	4.60	0	0	0	0	0	0	0	0
\$144	\$148	21.90	13.60	5.20	0	0	0	0	0	0	0	0
\$148	\$152	22.50	14.20	5.80	0	0	0	0	0	0	0	0
\$152	\$156	23.10	14.80	6.40	0	0	0	0	0	0	0	0
\$156	\$160	23.70	15.40	7.00	0	0	0	0	0	0	0	0
\$160	\$164	24.30	16.00	7.60	0	0	0	0	0	0	0	0
\$164	\$168	24.90	16.60	8.20	0	0	0	0	0	0	0	0
\$168	\$172	25.50	17.20	8.80	.50	0	0	0	0	0	0	0
\$172	\$176	26.10	17.80	9.40	1.10	0	0	0	0	0	0	0
\$176	\$180	26.70	18.40	10.00	1.70	0	0	0	0	0	0	0
\$180	\$184	27.30	19.00	10.60	2.30	0	0	0	0	0	0	0
\$184	\$188	27.90	19.60	11.20	2.90	0	0	0	0	0	0	0
\$188	\$192	28.50	20.20	11.80	3.50	0	0	0	0	0	0	0
\$192	\$196	29.10	20.80	12.40	4.10	0	0	0	0	0	0	0
\$196	\$200	29.70	21.40	13.00	4.70	0	0	0	0	0	0	0
\$200	\$204	30.30	22.00	13.60	5.30	0	0	0	0	0	0	0
\$204	\$208	30.90	22.60	14.20	5.90	0	0	0	0	0	0	0
\$208	\$212	31.50	23.20	14.80	6.50	0	0	0	0	0	0	0
\$212	\$216	32.10	23.80	15.40	7.10	0	0	0	0	0	0	0
\$216	\$220	32.70	24.40	16.00	7.70	0	0	0	0	0	0	0
\$220	\$224	33.30	25.00	16.60	8.30	0	0	0	0	0	0	0
\$224	\$228	33.90	25.60	17.20	8.90	.60	0	0	0	0	0	0
\$228	\$232	34.50	26.20	17.80	9.50	1.20	0	0	0	0	0	0
\$232	\$236	35.10	26.80	18.40	10.10	1.80	0	0	0	0	0	0
\$236	\$240	35.70	27.40	19.00	10.70	2.40	0	0	0	0	0	0
\$240	\$244	36.30	28.00	19.60	11.30	3.00	0	0	0	0	0	0
\$244	\$248	36.90	28.60	20.20	11.90	3.60	0	0	0	0	0	0
\$248	\$252	37.50	29.20	20.80	12.50	4.20	0	0	0	0	0	0
\$252	\$256	38.10	29.80	21.40	13.10	4.80	0	0	0	0	0	0
\$256	\$260	38.70	30.40	22.00	13.70	5.40	0	0	0	0	0	0
\$260	\$264	39.30	31.00	22.60	14.30	6.00	0	0	0	0	0	0
\$264	\$272	40.20	31.90	23.50	15.20	6.90	0	0	0	0	0	0
\$272	\$280	41.40	33.10	24.70	16.40	8.10	0	0	0	0	0	0
\$280	\$288	42.60	34.30	25.90	17.60	9.30	.90	0	0	0	0	0
\$288	\$296	43.80	35.50	27.10	18.80	10.50	2.10	0	0	0	0	0
\$296	\$304	45.00	36.70	28.30	20.00	11.70	3.30	0	0	0	0	0
\$304	\$312	46.20	37.90	29.50	21.20	12.90	4.50	0	0	0	0	0
\$312	\$320	47.40	39.10	30.70	22.40	14.10	5.70	0	0	0	0	0
\$320	\$328	48.60	40.30	31.90	23.60	15.30	6.90	0	0	0	0	0
\$328	\$336	49.80	41.50	33.10	24.80	16.50	8.10	0	0	0	0	0
\$336	\$344	51.00	42.70	34.30	26.00	17.70	9.30	1.00	0	0	0	0
\$344	\$352	52.20	43.90	35.50	27.20	18.90	10.50	2.20	0	0	0	0
\$352	\$360	53.40	45.10	36.70	28.40	20.10	11.70	3.40	0	0	0	0
\$360	\$368	54.60	46.30	37.90	29.60	21.30	12.90	4.60	0	0	0	0
\$368	\$376	55.80	47.50	39.10	30.80	22.50	14.10	5.80	0	0	0	0
\$376	\$384	57.00	48.70	40.30	32.00	23.70	15.30	7.00	0	0	0	0
\$384	\$392	58.20	49.90	41.50	33.20	24.90	16.50	8.20	0	0	0	0
\$392	\$400	59.40	51.10	42.70	34.40	26.10	17.70	9.40	1.10	0	0	0
\$400	\$420	61.50	53.20	44.80	36.50	28.20	19.80	11.50	3.20	0	0	0
\$420	\$440	64.50	56.20	47.80	39.50	31.20	22.80	14.50	6.20	0	0	0
\$440	\$460	67.50	59.20	50.80	42.50	34.20	25.80	17.50	9.20	0	0	0
\$460	\$480	70.50	62.20	53.80	45.50	37.20	28.80	20.50	12.20	3.80	0	0
\$480	\$500	73.50	65.20	56.80	48.50	40.20	31.80	23.50	15.20	6.80	0	0
\$500	\$520	76.50	68.20	59.80	51.50	43.20	34.80	26.50	18.20	9.80	1.50	0
\$520	\$540	79.50	71.20	62.80	54.50	46.20	37.80	29.50	21.20	12.80	4.50	0
\$540	\$560	82.50	74.20	65.80	57.50	49.20	40.80	32.50	24.20	15.80	7.50	0
\$560	\$580	85.50	77.20	68.80	60.50	52.20	43.80	35.50	27.20	18.80	10.50	2.20
\$580	\$600	88.50	80.20	71.80	63.50	55.20	46.80	38.50	30.20	21.80	13.50	5.20
\$600	\$640	93.00	84.70	76.30	68.00	59.70	51.30	43.00	34.70	26.30	18.00	9.70
\$640	\$680	99.00	90.70	82.30	74.00	65.70	57.30	49.00	40.70	32.30	24.00	15.70
\$680	\$720	105.00	96.70	88.30	80.00	71.70	63.30	55.00	46.70	38.30	30.00	21.70
\$720	\$760	111.00	102.70	94.30	86.00	77.70	69.30	61.00	52.70	44.30	36.00	27.70
\$760	\$800	117.00	108.70	100.30	92.00	83.70	75.30	67.00	58.70	50.30	42.00	33.70
\$800	\$840	123.00	114.70	106.30	98.00	89.70	81.30	73.00	64.70	56.30	48.00	39.70
\$840	\$880	129.00	120.70	112.30	104.00	95.70	87.30	79.00	70.70	62.30	54.00	45.70
\$880	\$920	135.00	126.70	118.30	110.00	101.70	93.30	85.00	76.70	68.30	60.00	51.70
\$920	\$960	141.00	132.70	124.30	116.00	107.70	99.30	91.00	82.70	74.30	66.00	57.70
\$960	\$1,000	147.00	138.70	130.30	122.00	113.70	105.30	97.00	88.70	80.30	72.00	63.70
15 percent of the excess over \$1,000 plus—												
\$1,000 and over		150.00	141.70	133.30	125.00	116.70	108.30	100.00	91.70	83.30	75.00	66.70

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
		0	1	2	3	4	5	6	7	8	9	10 or more
		15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0.....	\$2.00.....	\$0.30	.05	0	0	0	0	0	0	0	0	0
\$2.00.....	\$2.25.....	.35	.10	0	0	0	0	0	0	0	0	0
\$2.25.....	\$2.50.....	.40	.10	0	0	0	0	0	0	0	0	0
\$2.50.....	\$2.75.....	.45	.15	0	0	0	0	0	0	0	0	0
\$2.75.....	\$3.00.....	.45	.20	0	0	0	0	0	0	0	0	0
\$3.00.....	\$3.25.....	.50	.25	0	0	0	0	0	0	0	0	0
\$3.25.....	\$3.50.....	.55	.25	0	0	0	0	0	0	0	0	0
\$3.50.....	\$3.75.....	.60	.30	.05	0	0	0	0	0	0	0	0
\$3.75.....	\$4.00.....	.60	.35	.05	0	0	0	0	0	0	0	0
\$4.00.....	\$4.25.....	.65	.40	.10	0	0	0	0	0	0	0	0
\$4.25.....	\$4.50.....	.70	.40	.15	0	0	0	0	0	0	0	0
\$4.50.....	\$4.75.....	.75	.45	.20	0	0	0	0	0	0	0	0
\$4.75.....	\$5.00.....	.75	.50	.20	0	0	0	0	0	0	0	0
\$5.00.....	\$5.25.....	.80	.55	.25	0	0	0	0	0	0	0	0
\$5.25.....	\$5.50.....	.85	.55	.30	0	0	0	0	0	0	0	0
\$5.50.....	\$5.75.....	.90	.60	.35	.05	0	0	0	0	0	0	0
\$5.75.....	\$6.00.....	.90	.65	.35	.10	0	0	0	0	0	0	0
\$6.00.....	\$6.25.....	.95	.70	.40	.15	0	0	0	0	0	0	0
\$6.25.....	\$6.50.....	1.00	.70	.45	.15	0	0	0	0	0	0	0
\$6.50.....	\$6.75.....	1.05	.75	.50	.20	0	0	0	0	0	0	0
\$6.75.....	\$7.00.....	1.05	.80	.50	.25	0	0	0	0	0	0	0
\$7.00.....	\$7.25.....	1.10	.85	.55	.30	0	0	0	0	0	0	0
\$7.25.....	\$7.50.....	1.15	.85	.60	.30	.05	0	0	0	0	0	0
\$7.50.....	\$7.75.....	1.20	.90	.65	.35	.10	0	0	0	0	0	0
\$7.75.....	\$8.00.....	1.20	.95	.65	.40	.10	0	0	0	0	0	0
\$8.00.....	\$8.25.....	1.25	1.00	.70	.45	.15	0	0	0	0	0	0
\$8.25.....	\$8.50.....	1.30	1.00	.75	.45	.20	0	0	0	0	0	0
\$8.50.....	\$8.75.....	1.35	1.05	.80	.50	.25	0	0	0	0	0	0
\$8.75.....	\$9.00.....	1.35	1.10	.80	.55	.25	0	0	0	0	0	0
\$9.00.....	\$9.25.....	1.40	1.15	.85	.60	.30	.05	0	0	0	0	0
\$9.25.....	\$9.50.....	1.45	1.15	.90	.60	.35	.05	0	0	0	0	0
\$9.50.....	\$9.75.....	1.50	1.20	.95	.65	.40	.10	0	0	0	0	0
\$9.75.....	\$10.00.....	1.55	1.25	1.00	.70	.45	.15	0	0	0	0	0
\$10.00.....	\$10.50.....	1.60	1.35	1.05	.80	.50	.25	0	0	0	0	0
\$10.50.....	\$11.00.....	1.70	1.40	1.15	.85	.60	.30	.05	0	0	0	0
\$11.00.....	\$11.50.....	1.75	1.50	1.20	.95	.65	.40	.10	0	0	0	0
\$11.50.....	\$12.00.....	1.85	1.55	1.30	1.00	.75	.45	.20	0	0	0	0
\$12.00.....	\$12.50.....	1.90	1.65	1.35	1.10	.80	.55	.25	0	0	0	0
\$12.50.....	\$13.00.....	2.00	1.70	1.45	1.15	.90	.60	.35	.05	0	0	0
\$13.00.....	\$13.50.....	2.05	1.80	1.50	1.25	.95	.70	.40	.15	0	0	0
\$13.50.....	\$14.00.....	2.15	1.85	1.60	1.30	1.05	.75	.50	.20	0	0	0
\$14.00.....	\$14.50.....	2.20	1.95	1.65	1.40	1.10	.85	.55	.30	0	0	0
\$14.50.....	\$15.00.....	2.30	2.00	1.75	1.45	1.20	.90	.65	.35	.10	0	0
\$15.00.....	\$15.50.....	2.35	2.10	1.80	1.55	1.25	1.00	.70	.45	.15	0	0
\$15.50.....	\$16.00.....	2.45	2.15	1.90	1.60	1.35	1.05	.80	.50	.25	0	0
\$16.00.....	\$16.50.....	2.50	2.25	1.95	1.70	1.40	1.15	.85	.60	.30	.05	0
\$16.50.....	\$17.00.....	2.60	2.30	2.05	1.75	1.50	1.20	.95	.65	.40	.10	0
\$17.00.....	\$17.50.....	2.65	2.40	2.10	1.85	1.55	1.30	1.00	.75	.45	.20	0
\$17.50.....	\$18.00.....	2.75	2.45	2.20	1.90	1.65	1.35	1.10	.80	.55	.25	0
\$18.00.....	\$18.50.....	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35	.05
\$18.50.....	\$19.00.....	2.90	2.60	2.35	2.05	1.80	1.50	1.25	.95	.70	.40	.15
\$19.00.....	\$19.50.....	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50	.20
\$19.50.....	\$20.00.....	3.10	2.80	2.55	2.25	2.00	1.70	1.45	1.15	.90	.60	.35
\$20.00.....	\$21.00.....	3.25	2.95	2.70	2.40	2.15	1.85	1.60	1.30	1.05	.75	.50
\$21.00.....	\$22.00.....	3.40	3.10	2.85	2.55	2.30	2.00	1.75	1.45	1.20	.90	.65
\$22.00.....	\$23.00.....	3.55	3.25	3.00	2.70	2.45	2.15	1.90	1.60	1.35	1.05	.80
\$23.00.....	\$24.00.....	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75	1.50	1.20	.95
\$24.00.....	\$25.00.....	3.85	3.55	3.30	3.00	2.75	2.45	2.20	1.90	1.65	1.35	1.10
\$25.00.....	\$26.00.....	4.00	3.70	3.45	3.15	2.90	2.60	2.35	2.05	1.80	1.50	1.25
\$26.00.....	\$27.00.....	4.15	3.85	3.60	3.30	3.05	2.75	2.50	2.20	1.95	1.65	1.40
\$27.00.....	\$28.00.....	4.30	4.00	3.75	3.45	3.20	2.90	2.65	2.35	2.10	1.80	1.55
\$28.00.....	\$29.00.....	4.45	4.15	3.90	3.60	3.35	3.05	2.80	2.50	2.25	1.95	1.70
\$29.00.....	\$30.00.....											
		15 percent of the excess over \$30 plus—										
\$30 and over.....		4.50	4.25	3.95	3.70	3.40	3.15	2.85	2.60	2.30	2.05	1.75

1 “(B) WAGES PAID AFTER DECEMBER 31, 1964.—
2 At the election of the employer with respect to any
3 employee, the employer shall deduct and withhold upon
4 the wages paid to such employee after December 31,
5 1964, a tax determined in accordance with the follow-
6 ing tables, which shall be in lieu of the tax required to be
7 deducted and withheld under subsection (a) :

“If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$13.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$1.90	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.00	.20	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	2.20	.40	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	2.30	.50	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	2.50	.70	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	2.60	.80	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	2.70	.90	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	2.90	1.10	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	3.00	1.20	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	3.20	1.40	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	3.30	1.50	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	3.40	1.60	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	3.60	1.80	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	3.70	1.90	.10	0	0	0	0	0	0	0	0
\$27.....	\$28.....	3.90	2.10	.30	0	0	0	0	0	0	0	0
\$28.....	\$29.....	4.00	2.20	.40	0	0	0	0	0	0	0	0
\$29.....	\$30.....	4.10	2.30	.50	0	0	0	0	0	0	0	0
\$30.....	\$31.....	4.30	2.50	.70	0	0	0	0	0	0	0	0
\$31.....	\$32.....	4.40	2.60	.80	0	0	0	0	0	0	0	0
\$32.....	\$33.....	4.60	2.80	1.00	0	0	0	0	0	0	0	0
\$33.....	\$34.....	4.70	2.90	1.10	0	0	0	0	0	0	0	0
\$34.....	\$35.....	4.80	3.00	1.20	0	0	0	0	0	0	0	0
\$35.....	\$36.....	5.00	3.20	1.40	0	0	0	0	0	0	0	0
\$36.....	\$37.....	5.10	3.30	1.50	0	0	0	0	0	0	0	0
\$37.....	\$38.....	5.30	3.50	1.70	0	0	0	0	0	0	0	0
\$38.....	\$39.....	5.40	3.60	1.80	0	0	0	0	0	0	0	0
\$39.....	\$40.....	5.50	3.70	1.90	.10	0	0	0	0	0	0	0
\$40.....	\$41.....	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
\$41.....	\$42.....	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
\$42.....	\$43.....	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
\$43.....	\$44.....	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
\$44.....	\$45.....	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
\$45.....	\$46.....	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
\$46.....	\$47.....	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
\$47.....	\$48.....	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
\$48.....	\$49.....	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
\$49.....	\$50.....	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
\$50.....	\$51.....	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
\$51.....	\$52.....	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
\$52.....	\$53.....	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
\$53.....	\$54.....	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
\$54.....	\$55.....	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
\$55.....	\$56.....	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
\$56.....	\$57.....	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
\$57.....	\$58.....	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
\$58.....	\$59.....	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
\$59.....	\$60.....	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
\$60.....	\$62.....	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
\$62.....	\$64.....	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
\$64.....	\$66.....	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
\$66.....	\$68.....	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
\$68.....	\$70.....	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
\$70.....	\$72.....	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
\$72.....	\$74.....	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
\$74.....	\$76.....	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
\$76.....	\$78.....	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
\$78.....	\$80.....	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
\$80.....	\$82.....	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
\$82.....	\$84.....	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
\$84.....	\$86.....	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
\$86.....	\$88.....	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
\$88.....	\$90.....	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
\$90.....	\$92.....	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
\$92.....	\$94.....	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
\$94.....	\$96.....	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
\$96.....	\$98.....	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
\$98.....	\$100.....	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
\$100.....	\$105.....	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
\$105.....	\$110.....	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
\$110.....	\$115.....	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
\$115.....	\$120.....	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
\$120.....	\$125.....	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
\$125.....	\$130.....	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
\$130.....	\$135.....	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
\$135.....	\$140.....	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
\$140.....	\$145.....	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
\$145.....	\$150.....	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
\$150.....	\$160.....	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
\$160.....	\$170.....	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
\$170.....	\$180.....	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
\$180.....	\$190.....	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
\$190.....	\$200.....	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
14 percent of the excess over \$200 plus—												
\$200 and over.....		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

“If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
\$0	\$26	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$3.80	.20	0	0	0	0	0	0	0	0	0
\$28	\$30	4.10	.50	0	0	0	0	0	0	0	0	0
\$30	\$32	4.30	.80	0	0	0	0	0	0	0	0	0
\$32	\$34	4.60	1.00	0	0	0	0	0	0	0	0	0
\$34	\$36	4.90	1.30	0	0	0	0	0	0	0	0	0
\$36	\$38	5.20	1.60	0	0	0	0	0	0	0	0	0
\$38	\$40	5.50	1.90	0	0	0	0	0	0	0	0	0
\$40	\$42	5.70	2.20	0	0	0	0	0	0	0	0	0
\$42	\$44	6.00	2.40	0	0	0	0	0	0	0	0	0
\$44	\$46	6.30	2.70	0	0	0	0	0	0	0	0	0
\$46	\$48	6.60	3.00	0	0	0	0	0	0	0	0	0
\$48	\$50	6.90	3.30	0	0	0	0	0	0	0	0	0
\$50	\$52	7.10	3.60	0	0	0	0	0	0	0	0	0
\$52	\$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
\$54	\$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
\$56	\$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
\$58	\$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
\$60	\$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
\$62	\$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
\$64	\$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
\$66	\$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
\$68	\$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
\$70	\$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
\$72	\$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
\$74	\$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
\$76	\$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
\$78	\$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
\$80	\$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
\$82	\$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
\$84	\$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
\$86	\$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
\$88	\$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
\$90	\$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
\$92	\$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
\$94	\$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
\$96	\$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
\$98	\$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
\$100	\$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
\$102	\$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
\$104	\$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
\$106	\$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
\$108	\$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
\$110	\$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
\$112	\$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
\$114	\$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
\$116	\$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
\$118	\$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
\$120	\$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
\$124	\$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
\$128	\$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
\$132	\$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
\$136	\$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
\$140	\$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
\$144	\$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
\$148	\$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
\$152	\$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
\$156	\$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
\$160	\$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
\$164	\$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
\$168	\$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
\$172	\$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
\$176	\$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
\$180	\$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
\$184	\$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
\$188	\$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
\$192	\$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
\$196	\$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
\$200	\$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
\$210	\$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
\$220	\$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
\$230	\$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
\$240	\$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
\$250	\$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
\$260	\$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
\$270	\$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
\$280	\$290	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
\$290	\$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
\$300	\$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
\$320	\$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
\$340	\$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
\$360	\$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
\$380	\$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
\$400 and over		14 percent of the excess over \$400 plus—										
		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

“If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$28.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.....	\$30.....	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	4.30	.50	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	4.60	.70	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	4.90	1.00	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	5.20	1.30	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	5.50	1.60	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	5.70	1.90	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	6.00	2.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	6.30	2.40	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	6.60	2.70	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	6.90	3.00	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	7.10	3.30	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	7.40	3.50	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	7.70	3.80	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	8.00	4.10	.20	0	0	0	0	0	0	0	0
\$58.....	\$60.....	8.30	4.40	.50	0	0	0	0	0	0	0	0
\$60.....	\$62.....	8.50	4.70	.80	0	0	0	0	0	0	0	0
\$62.....	\$64.....	8.80	4.90	1.00	0	0	0	0	0	0	0	0
\$64.....	\$66.....	9.10	5.20	1.30	0	0	0	0	0	0	0	0
\$66.....	\$68.....	9.40	5.50	1.60	0	0	0	0	0	0	0	0
\$68.....	\$70.....	9.70	5.80	1.90	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.90	6.10	2.20	0	0	0	0	0	0	0	0
\$72.....	\$74.....	10.20	6.30	2.40	0	0	0	0	0	0	0	0
\$74.....	\$76.....	10.50	6.60	2.70	0	0	0	0	0	0	0	0
\$76.....	\$78.....	10.80	6.90	3.00	0	0	0	0	0	0	0	0
\$78.....	\$80.....	11.10	7.20	3.30	0	0	0	0	0	0	0	0
\$80.....	\$82.....	11.30	7.50	3.60	0	0	0	0	0	0	0	0
\$82.....	\$84.....	11.60	7.70	3.80	0	0	0	0	0	0	0	0
\$84.....	\$86.....	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
\$86.....	\$88.....	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
\$88.....	\$90.....	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
\$90.....	\$92.....	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
\$92.....	\$94.....	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
\$94.....	\$96.....	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
\$96.....	\$98.....	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
\$98.....	\$100.....	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
\$100.....	\$102.....	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
\$102.....	\$104.....	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
\$104.....	\$106.....	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
\$106.....	\$108.....	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
\$108.....	\$110.....	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
\$110.....	\$112.....	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
\$112.....	\$114.....	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
\$114.....	\$116.....	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
\$116.....	\$118.....	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
\$118.....	\$120.....	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
\$120.....	\$124.....	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
\$124.....	\$128.....	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
\$128.....	\$132.....	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
\$132.....	\$136.....	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
\$136.....	\$140.....	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
\$140.....	\$144.....	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
\$144.....	\$148.....	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
\$148.....	\$152.....	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
\$152.....	\$156.....	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
\$156.....	\$160.....	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
\$160.....	\$164.....	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
\$164.....	\$168.....	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
\$168.....	\$172.....	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
\$172.....	\$176.....	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
\$176.....	\$180.....	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
\$180.....	\$184.....	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
\$184.....	\$188.....	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
\$188.....	\$192.....	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
\$192.....	\$196.....	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
\$196.....	\$200.....	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
\$200.....	\$210.....	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
\$210.....	\$220.....	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
\$220.....	\$230.....	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
\$230.....	\$240.....	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
\$240.....	\$250.....	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
\$250.....	\$260.....	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
\$260.....	\$270.....	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
\$270.....	\$280.....	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
\$280.....	\$290.....	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
\$290.....	\$300.....	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
\$300.....	\$320.....	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
\$320.....	\$340.....	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
\$340.....	\$360.....	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
\$360.....	\$380.....	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
\$380.....	\$400.....	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
\$400.....	\$420.....	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
\$420.....	\$440.....	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
\$440.....	\$460.....	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
\$460.....	\$480.....	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
\$480.....	\$500.....	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
14 percent of the excess over \$500 plus—												
\$500 and over.....		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

“If the payroll period with respect to an employee is monthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$56	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56	\$60	\$8.10	.30	0	0	0	0	0	0	0	0	0
\$60	\$64	8.70	.90	0	0	0	0	0	0	0	0	0
\$64	\$68	9.20	1.50	0	0	0	0	0	0	0	0	0
\$68	\$72	9.80	2.00	0	0	0	0	0	0	0	0	0
\$72	\$76	10.40	2.60	0	0	0	0	0	0	0	0	0
\$76	\$80	10.90	3.10	0	0	0	0	0	0	0	0	0
\$80	\$84	11.50	3.70	0	0	0	0	0	0	0	0	0
\$84	\$88	12.00	4.30	0	0	0	0	0	0	0	0	0
\$88	\$92	12.60	4.80	0	0	0	0	0	0	0	0	0
\$92	\$96	13.20	5.40	0	0	0	0	0	0	0	0	0
\$96	\$100	13.70	5.90	0	0	0	0	0	0	0	0	0
\$100	\$104	14.30	6.50	0	0	0	0	0	0	0	0	0
\$104	\$108	14.80	7.10	0	0	0	0	0	0	0	0	0
\$108	\$112	15.40	7.60	0	0	0	0	0	0	0	0	0
\$112	\$116	16.00	8.20	.40	0	0	0	0	0	0	0	0
\$116	\$120	16.50	8.70	1.00	0	0	0	0	0	0	0	0
\$120	\$124	17.10	9.30	1.50	0	0	0	0	0	0	0	0
\$124	\$128	17.60	9.90	2.10	0	0	0	0	0	0	0	0
\$128	\$132	18.20	10.40	2.60	0	0	0	0	0	0	0	0
\$132	\$136	18.80	11.00	3.20	0	0	0	0	0	0	0	0
\$136	\$140	19.30	11.50	3.80	0	0	0	0	0	0	0	0
\$140	\$144	19.90	12.10	4.30	0	0	0	0	0	0	0	0
\$144	\$148	20.40	12.70	4.90	0	0	0	0	0	0	0	0
\$148	\$152	21.00	13.20	5.40	0	0	0	0	0	0	0	0
\$152	\$156	21.60	13.80	6.00	0	0	0	0	0	0	0	0
\$156	\$160	22.10	14.30	6.60	0	0	0	0	0	0	0	0
\$160	\$164	22.70	14.90	7.10	0	0	0	0	0	0	0	0
\$164	\$168	23.20	15.50	7.70	0	0	0	0	0	0	0	0
\$168	\$172	23.80	16.00	8.20	.50	0	0	0	0	0	0	0
\$172	\$176	24.40	16.60	8.80	1.00	0	0	0	0	0	0	0
\$176	\$180	24.90	17.10	9.40	1.60	0	0	0	0	0	0	0
\$180	\$184	25.50	17.70	9.90	2.10	0	0	0	0	0	0	0
\$184	\$188	26.00	18.30	10.50	2.70	0	0	0	0	0	0	0
\$188	\$192	26.60	18.80	11.00	3.30	0	0	0	0	0	0	0
\$192	\$196	27.20	19.40	11.60	3.80	0	0	0	0	0	0	0
\$196	\$200	27.70	19.90	12.20	4.40	0	0	0	0	0	0	0
\$200	\$204	28.30	20.50	12.70	4.90	0	0	0	0	0	0	0
\$204	\$208	28.80	21.10	13.30	5.50	0	0	0	0	0	0	0
\$208	\$212	29.40	21.60	13.80	6.10	0	0	0	0	0	0	0
\$212	\$216	30.00	22.20	14.40	6.60	0	0	0	0	0	0	0
\$216	\$220	30.50	22.70	15.00	7.20	0	0	0	0	0	0	0
\$220	\$224	31.10	23.30	15.50	7.70	0	0	0	0	0	0	0
\$224	\$228	31.60	23.90	16.10	8.30	.50	0	0	0	0	0	0
\$228	\$232	32.20	24.40	16.60	8.90	1.10	0	0	0	0	0	0
\$232	\$236	32.80	25.00	17.20	9.40	1.60	0	0	0	0	0	0
\$236	\$240	33.30	25.50	17.80	10.00	2.20	0	0	0	0	0	0
\$240	\$248	34.20	26.40	18.60	10.80	3.00	0	0	0	0	0	0
\$248	\$256	35.30	27.50	19.70	11.90	4.20	0	0	0	0	0	0
\$256	\$264	36.40	28.60	20.80	13.10	5.30	0	0	0	0	0	0
\$264	\$272	37.50	29.70	22.00	14.20	6.40	0	0	0	0	0	0
\$272	\$280	38.60	30.90	23.10	15.30	7.50	0	0	0	0	0	0
\$280	\$288	39.80	32.00	24.20	16.40	8.60	.90	0	0	0	0	0
\$288	\$296	40.90	33.10	25.30	17.50	9.80	2.00	0	0	0	0	0
\$296	\$304	42.00	34.20	26.40	18.70	10.90	3.10	0	0	0	0	0
\$304	\$312	43.10	35.30	27.60	19.80	12.00	4.20	0	0	0	0	0
\$312	\$320	44.20	36.50	28.70	20.90	13.10	5.40	0	0	0	0	0
\$320	\$328	45.40	37.60	29.80	22.00	14.20	6.50	0	0	0	0	0
\$328	\$336	46.50	38.70	30.90	23.10	15.40	7.60	0	0	0	0	0
\$336	\$344	47.60	39.80	32.00	24.30	16.50	8.70	.90	0	0	0	0
\$344	\$352	48.70	40.90	33.20	25.40	17.60	9.80	2.10	0	0	0	0
\$352	\$360	49.80	42.10	34.30	26.50	18.70	11.00	3.20	0	0	0	0
\$360	\$368	51.00	43.20	35.40	27.60	19.80	12.10	4.30	0	0	0	0
\$368	\$376	52.10	44.30	36.50	28.70	21.00	13.20	5.40	0	0	0	0
\$376	\$384	53.20	45.40	37.60	29.80	22.10	14.30	6.50	0	0	0	0
\$384	\$392	54.30	46.50	38.80	31.00	23.20	15.40	7.70	0	0	0	0
\$392	\$400	55.40	47.70	39.90	32.10	24.30	16.60	8.80	1.00	0	0	0
\$400	\$420	57.40	49.60	41.80	34.10	26.30	18.50	10.70	3.00	0	0	0
\$420	\$440	60.20	52.40	44.60	36.90	29.10	21.30	13.50	5.80	0	0	0
\$440	\$460	63.00	55.20	47.40	39.70	31.90	24.10	16.30	8.60	.80	0	0
\$460	\$480	65.80	58.00	50.20	42.50	34.70	26.90	19.10	11.40	3.60	0	0
\$480	\$500	68.60	60.80	53.00	45.30	37.50	29.70	21.90	14.20	6.40	0	0
\$500	\$520	71.40	63.60	55.80	48.10	40.30	32.50	24.70	17.00	9.20	1.40	0
\$520	\$540	74.20	66.40	58.60	50.90	43.10	35.30	27.50	19.80	12.00	4.20	0
\$540	\$560	77.00	69.20	61.40	53.70	45.90	38.10	30.30	22.60	14.80	7.00	0
\$560	\$580	79.80	72.00	64.20	56.50	48.70	40.90	33.10	25.40	17.60	9.80	2.00
\$580	\$600	82.60	74.80	67.00	59.30	51.50	43.70	35.90	28.20	20.40	12.60	4.80
\$600	\$640	86.80	79.00	71.20	63.50	55.70	47.90	40.10	32.40	24.60	16.80	9.00
\$640	\$680	92.40	84.60	76.80	69.10	61.30	53.50	45.70	38.00	30.20	22.40	14.60
\$680	\$720	98.00	90.20	82.40	74.70	66.90	59.10	51.30	43.60	35.80	28.00	20.20
\$720	\$760	103.60	95.80	88.00	80.30	72.50	64.70	56.90	49.20	41.40	33.60	25.80
\$760	\$800	109.20	101.40	93.60	85.90	78.10	70.30	62.50	54.80	47.00	39.20	31.40
\$800	\$840	114.80	107.00	99.20	91.50	83.70	75.90	68.10	60.40	52.60	44.80	37.00
\$840	\$880	120.40	112.60	104.80	97.10	89.30	81.50	73.70	66.00	58.20	50.40	42.60
\$880	\$920	126.00	118.20	110.40	102.70	94.90	87.10	79.30	71.60	63.80	56.00	48.20
\$920	\$960	131.60	123.80	116.00	108.30	100.50	92.70	84.90	77.20	69.40	61.60	53.80
\$960	\$1,000	137.20	129.40	121.60	113.90	106.10	98.30	90.50	82.80	75.00	67.20	59.40
14 percent of the excess over \$1,000 plus—												
\$1,000 and over		140.00	132.20	124.40	116.70	108.90	101.10	93.30	85.60	77.80	70.00	62.20

“If the payroll period with respect to an employee is a daily payroll period or a miscellaneous payroll period—

And the wages divided by the number of days in such period are—		And the number of withholding exemptions claimed is—										
		0	1	2	3	4	5	6	7	8	9	10 or more
At least—	But less than—	The amount of tax to be withheld shall be the following amount multiplied by the number of days in such period—										
\$0-----	\$2.00-----	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$2.00-----	\$2.25-----	\$.30	.05	0	0	0	0	0	0	0	0	0
\$2.25-----	\$2.50-----	.35	.10	0	0	0	0	0	0	0	0	0
\$2.50-----	\$2.75-----	.35	.10	0	0	0	0	0	0	0	0	0
\$2.75-----	\$3.00-----	.40	.15	0	0	0	0	0	0	0	0	0
\$3.00-----	\$3.25-----	.45	.20	0	0	0	0	0	0	0	0	0
\$3.25-----	\$3.50-----	.45	.20	0	0	0	0	0	0	0	0	0
\$3.50-----	\$3.75-----	.50	.25	0	0	0	0	0	0	0	0	0
\$3.75-----	\$4.00-----	.55	.30	.05	0	0	0	0	0	0	0	0
\$4.00-----	\$4.25-----	.60	.30	.05	0	0	0	0	0	0	0	0
\$4.25-----	\$4.50-----	.60	.35	.10	0	0	0	0	0	0	0	0
\$4.50-----	\$4.75-----	.65	.40	.15	0	0	0	0	0	0	0	0
\$4.75-----	\$5.00-----	.70	.45	.15	0	0	0	0	0	0	0	0
\$5.00-----	\$5.25-----	.70	.45	.20	0	0	0	0	0	0	0	0
\$5.25-----	\$5.50-----	.75	.50	.25	0	0	0	0	0	0	0	0
\$5.50-----	\$5.75-----	.80	.55	.30	0	0	0	0	0	0	0	0
\$5.75-----	\$6.00-----	.80	.55	.30	.05	0	0	0	0	0	0	0
\$6.00-----	\$6.25-----	.85	.60	.35	.10	0	0	0	0	0	0	0
\$6.25-----	\$6.50-----	.90	.65	.40	.15	0	0	0	0	0	0	0
\$6.50-----	\$6.75-----	.95	.65	.40	.15	0	0	0	0	0	0	0
\$6.75-----	\$7.00-----	.95	.70	.45	.20	0	0	0	0	0	0	0
\$7.00-----	\$7.25-----	1.00	.75	.50	.25	0	0	0	0	0	0	0
\$7.25-----	\$7.50-----	1.05	.80	.50	.25	0	0	0	0	0	0	0
\$7.50-----	\$7.75-----	1.05	.80	.55	.30	.05	0	0	0	0	0	0
\$7.75-----	\$8.00-----	1.10	.85	.60	.35	.10	0	0	0	0	0	0
\$8.00-----	\$8.25-----	1.15	.90	.65	.35	.10	0	0	0	0	0	0
\$8.25-----	\$8.50-----	1.15	.90	.65	.40	.15	0	0	0	0	0	0
\$8.50-----	\$8.75-----	1.20	.95	.70	.45	.20	0	0	0	0	0	0
\$8.75-----	\$9.00-----	1.25	1.00	.75	.50	.20	0	0	0	0	0	0
\$9.00-----	\$9.25-----	1.30	1.00	.75	.50	.25	0	0	0	0	0	0
\$9.25-----	\$9.50-----	1.30	1.05	.80	.55	.30	.05	0	0	0	0	0
\$9.50-----	\$9.75-----	1.35	1.10	.85	.60	.30	.05	0	0	0	0	0
\$9.75-----	\$10.00-----	1.40	1.15	.85	.60	.35	.10	0	0	0	0	0
\$10.00-----	\$10.50-----	1.45	1.20	.90	.65	.40	.15	0	0	0	0	0
\$10.50-----	\$11.00-----	1.50	1.25	1.00	.75	.50	.25	0	0	0	0	0
\$11.00-----	\$11.50-----	1.60	1.30	1.05	.80	.55	.30	.05	0	0	0	0
\$11.50-----	\$12.00-----	1.65	1.40	1.15	.90	.60	.35	.10	0	0	0	0
\$12.00-----	\$12.50-----	1.70	1.45	1.20	.95	.70	.45	.20	0	0	0	0
\$12.50-----	\$13.00-----	1.80	1.55	1.25	1.00	.75	.50	.25	0	0	0	0
\$13.00-----	\$13.50-----	1.85	1.60	1.35	1.10	.85	.60	.30	.05	0	0	0
\$13.50-----	\$14.00-----	1.95	1.65	1.40	1.15	.90	.65	.40	.15	0	0	0
\$14.00-----	\$14.50-----	2.00	1.75	1.50	1.25	.95	.70	.45	.20	0	0	0
\$14.50-----	\$15.00-----	2.05	1.80	1.55	1.30	1.05	.80	.55	.30	0	0	0
\$15.00-----	\$15.50-----	2.15	1.90	1.60	1.35	1.10	.85	.60	.35	.10	0	0
\$15.50-----	\$16.00-----	2.20	1.95	1.70	1.45	1.20	.95	.65	.40	.15	0	0
\$16.00-----	\$16.50-----	2.30	2.00	1.75	1.50	1.25	1.00	.75	.50	.25	0	0
\$16.50-----	\$17.00-----	2.35	2.10	1.85	1.60	1.30	1.05	.80	.55	.30	.05	0
\$17.00-----	\$17.50-----	2.40	2.15	1.90	1.65	1.40	1.15	.90	.65	.35	.10	0
\$17.50-----	\$18.00-----	2.50	2.25	1.95	1.70	1.45	1.20	.95	.70	.45	.20	0
\$18.00-----	\$18.50-----	2.55	2.30	2.05	1.80	1.55	1.30	1.00	.75	.50	.25	0
\$18.50-----	\$19.00-----	2.65	2.35	2.10	1.85	1.60	1.35	1.10	.85	.60	.30	.05
\$19.00-----	\$19.50-----	2.70	2.45	2.20	1.95	1.65	1.40	1.15	.90	.65	.40	.15
\$19.50-----	\$20.00-----	2.75	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.70	.45	.20
\$20.00-----	\$21.00-----	2.85	2.60	2.35	2.10	1.85	1.60	1.35	1.10	.80	.55	.30
\$21.00-----	\$22.00-----	3.00	2.75	2.50	2.25	2.00	1.75	1.50	1.20	.95	.70	.45
\$22.00-----	\$23.00-----	3.15	2.90	2.65	2.40	2.15	1.85	1.60	1.35	1.10	.85	.60
\$23.00-----	\$24.00-----	3.30	3.05	2.80	2.50	2.25	2.00	1.75	1.50	1.25	1.00	.75
\$24.00-----	\$25.00-----	3.45	3.15	2.90	2.65	2.40	2.15	1.90	1.65	1.40	1.15	.85
\$25.00-----	\$26.00-----	3.55	3.30	3.05	2.80	2.55	2.30	2.05	1.80	1.50	1.25	1.00
\$26.00-----	\$27.00-----	3.70	3.45	3.20	2.95	2.70	2.45	2.20	1.90	1.65	1.40	1.15
\$27.00-----	\$28.00-----	3.85	3.60	3.35	3.10	2.85	2.55	2.30	2.05	1.80	1.55	1.30
\$28.00-----	\$29.00-----	4.00	3.75	3.50	3.20	2.95	2.70	2.45	2.20	1.95	1.70	1.45
\$29.00-----	\$30.00-----	4.15	3.85	3.60	3.35	3.10	2.85	2.60	2.35	2.10	1.85	1.65
		14 percent of the excess over \$30 plus—										
\$30 and over-----		4.20	3.95	3.70	3.45	3.20	2.90	2.65	2.40	2.15	1.90	1.65"

1 (c) WITHHOLDING OF TAX ON CERTAIN NONRESIDENT
2 ALIENS.—

3 (1) Section 1441 (a) (relating to general rule) is
4 amended by striking out “the tax shall be equal to 18
5 percent of such item.” and inserting in lieu thereof:

6 “the tax shall be equal to—

7 “(1) 15 percent in the case of payments made dur-
8 ing the calendar year 1964, and

9 “(2) 14 percent in the case of payments made after
10 December 31, 1964.”

11 (2) Section 1441 (b) (relating to income items)
12 is amended by striking out “18 percent” and by insert-
13 ing in lieu thereof “15 percent or 14 percent (as the
14 case may be)”.

15 (d) EFFECTIVE DATES.—The amendments made by sub-
16 sections (a) and (b) of this section shall apply with re-
17 spect to remuneration paid after December 31, 1963. The
18 amendment made by subsection (c) of this section shall
19 apply with respect to payments made after December 31,
20 1963.

Passed the House of Representatives September 25, 1963.

Attest:

RALPH R. ROBERTS,

Clerk.

TABLE OF CONTENTS

	Page
Section 1. Declaration by Congress-----	1
Sec. 2. Short title, etc.-----	2
TITLE I—REDUCTION OF INCOME TAX RATES AND RELATED AMENDMENTS	
PART I—INDIVIDUALS	
Sec. 111. Reduction of tax on individuals.	
(a) Individuals other than heads of households-----	2
(b) Heads of households-----	5
Sec. 112. Minimum standard deduction.	
(a) General rule-----	8
(b) Amendment of section 2-----	10
(c) Amendments of section 144-----	10
(d) Conforming amendments-----	11
Sec. 113. Related amendments.	
(a) Retirement income credit-----	11
(b) Tax on nonresident alien individuals-----	12
Sec. 114. Cross references to tax tables, etc.-----	12
PART II—CORPORATIONS	
Sec. 121. Reduction of tax on corporations-----	13
Sec. 122. Current tax payments by corporations.	
(a) Installment payments of estimated income tax by corporations-----	14
(b) Time for filing declarations of estimated income tax by corporations-----	19
(c) Failure by corporations to pay estimated income tax-----	21
(d) Technical amendment-----	22
Sec. 123. Related amendments.	
(a) Tax on mutual insurance companies (other than life, etc.)-----	22
(b) Receipt of minimum distributions by domestic corporations-----	24
(c) Amendment of section 242-----	25
PART III—EFFECTIVE DATES	
Sec. 131. General rule-----	26
Sec. 132. Fiscal year taxpayers-----	26
TITLE II—STRUCTURAL CHANGES	
Sec. 201. Dividends received by individuals.	
(a) Reduction of 4 percent credit to 2 percent credit for calendar year 1964-----	28
(b) Repeal of credit for dividends received by individuals-----	29
(c) Doubling of amount of partial exclusion from gross income of dividends received by individuals-----	29
(d) Conforming amendments-----	29
(e) Effective dates-----	31

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 202. Repeal of requirement that basis of section 38 property be reduced by 7 percent; other provisions relating to investment credit.	Page
(a) Repeal of requirement that basis be reduced.....	32
(b) Basis of certain leased property to lessee.....	34
(c) Treatment of elevators and escalators for purposes of the investment credit.....	35
(d) Treatment of elevators and escalators for purposes of section 1245.....	35
(e) Treatment of investment credit by Federal regulatory agencies..	37
(f) Effective dates.....	38
Sec. 203. Group-term life insurance purchased for employees.	38
(a) Inclusion in income.....	41
(b) Certain contributions by employees for group-term life insurance	43
(c) Withholding	43
(d) Effective dates.....	43
Sec. 204. Inclusion in gross income of reimbursed medical expenses to the extent that the reimbursement exceeds the expenses.	
(a) General rule.....	44
(b) Clerical amendment.....	45
(c) Technical amendment.....	45
(d) Effective date.....	45
Sec. 205. Amounts received under wage continuation plans.	
(a) Wage continuation plans.....	45
(b) Effective date.....	45
Sec. 206. Exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65.	
(a) In general.....	46
(b) Technical and clerical amendments.....	50
(c) Effective date.....	51
Sec. 207. Denial of deduction for certain State, local, and foreign taxes.	
(a) In general.....	52
(b) Technical amendments.....	55
(c) Effective date.....	58
Sec. 208. Personal casualty and theft losses.	
(a) Limitation on amount of casualty or theft loss deduction.....	58
(b) Effective date.....	59
Sec. 209. Charitable, etc., contributions and gifts.	
(a) Certain organizations added to additional 10-percent charitable limitation.....	59
(b) 5-year carryover of certain charitable contributions made by corporations.....	60
(c) Future interests in tangible personal property.....	61
(d) Effective dates.....	63
Sec. 210. One-percent limitation on medicine and drugs.	
(a) General rule.....	63
(b) Effective date.....	63

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 211. Care of dependents.	Page
(a) Child care allowance.....	64
(b) Effective date.....	68
Sec. 212. Moving expenses.	
(a) Deduction allowed for moving expenses.....	68
(b) Adjusted gross income.....	71
(c) Withholding.....	72
(d) Effective dates.....	72
Sec. 213. Interest on loans incurred to purchase certain insurance and annuity contracts.	
(a) Disallowance of interest deduction.....	72
(b) Exceptions	73
(c) Effective date.....	74
Sec. 214. Employee stock options and purchase plans.	
(a) In general.....	74
“Sec. 421. General rules.	
(a) Effect of qualifying transfer.....	75
(b) Effect of disqualifying disposition.....	75
(c) Exercise by estate.....	76
“Sec. 422. Qualified stock options.	
(a) In general.....	78
(b) Qualified stock option.....	79
(c) Special rules.....	81
“Sec. 423. Employee stock purchase plans.	
(a) General rule	85
(b) Employee stock purchase plan.....	86
(c) Special rule where option price is between 85 percent and 100 percent of value of stock.....	89
“Sec. 424. Restricted stock options.	
(a) In general.....	91
(b) Restricted stock option.....	91
(c) Special rules.....	93
“Sec. 425. Definitions and special rules.	
(a) Corporate reorganizations, liquidations, etc.....	96
(b) Acquisition of new stock.....	97
(c) Disposition	97
(d) Attribution of stock ownership.....	98
(e) Parent corporation.....	99
(f) Subsidiary corporation.....	99
(g) Special rule for applying subsections (e) and (f)....	100
(h) Modification, extension, or renewal of option.....	100
(i) Cross references.....	102
(b) Administrative provisions.....	102
(1) Reporting requirement for certain options.....	102
(2) Penalties for failure to file information returns.....	105
(3) Penalties for failure to furnish statements to persons with respect to whom returns are filed.....	106
(c) Technical amendments.....	106
(d) Clerical amendments.....	107
(e) Effective date.....	107

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 215. Interest on certain deferred payments.	Page
(a) In general.....	108
(b) Clerical amendment.....	112
(c) Certain carrying charges.....	112
(d) Effective dates.....	112
Sec. 216. Personal holding companies.	
(a) Personal holding company tax rate.....	113
(b) Definition of personal holding company.....	113
(c) Excluded corporations.....	113
(d) Personal holding company income.....	118
(e) Foreign personal holding company income and stock ownership.....	128
(f) Dividends-paid deduction.....	135
(g) One-month liquidations.....	138
(h) Exception for certain corporations.....	142
(i) Deduction for amortization of indebtedness.....	143
(j) Increase in basis with respect to certain foreign personal hold- ing company holdings.....	148
(k) Technical amendments.....	153
(l) Effective dates.....	156
Sec. 217. Treatment of property in case of oil and gas wells.	
(a) In general.....	157
(b) Technical amendments.....	161
(c) Allocation of basis in certain cases.....	162
(d) Effective date.....	164
Sec. 218. Treatment of certain iron ore royalties.	
(a) In general.....	165
(b) Clerical amendments.....	166
(c) Effective date.....	167
Sec. 219. Capital gains and losses.	
(a) Alternative tax, etc.	
(1) In general.	
(A) Alternative tax.....	167
(B) Deduction for capital gains.....	168
(C) Definitions.....	169
(2) Property used in the trade or business and involuntary con- versions.....	174
(3) Certain distributions under employees' trusts and annuity plans.....	176
(4) Sale or exchange of patents.....	178
(5) Employee termination payments.....	179
(b) Unlimited capital loss carryover.....	179
(c) Technical amendments.....	180
(d) Effective date.....	203

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 220. Gain from dispositions of certain depreciable realty.	Page
(a) Gain from dispositions of certain depreciable realty-----	206
“Sec. 1250. Gain from dispositions of certain depreciable realty.	
(a) General rule-----	206
(b) Additional depreciation defined-----	207
(c) Section 1250 property-----	208
(d) Exceptions and limitations-----	209
(e) Holding period-----	213
(f) Special rules for property which is substantially improved-----	215
(g) Adjustments to basis-----	218
(h) Application of section-----	218
(b) Technical amendments-----	218
(c) Effective date-----	220
Sec. 221. Averaging.	
(a) General rule-----	220
“Sec. 1301. Limitation on tax.	
“Sec. 1302. Definition of averagable income; related defini- tions.	
(a) Averagable income-----	221
(b) Adjusted taxable income-----	221
(c) Average base period income-----	223
(d) Capital gain net income, etc.-----	224
(e) Other related definitions-----	225
“Sec. 1303. Eligible individuals.	
(a) General rule-----	226
(b) Nonresident alien individuals-----	226
(c) Individuals receiving support from others-----	226
(d) Student defined-----	228
“Sec. 1304. Special rules.	
(a) Taxpayer must choose benefits-----	228
(b) Certain provisions inapplicable-----	228
(c) Failure of certain married individuals to make joint return, etc.-----	229
(d) Dollar limitations in case of joint returns-----	231
(e) Special rules where there are capital gains-----	231
(f) Treatment of certain other items-----	233
(g) Short taxable years-----	233
“Sec. 1305. Regulations.	
(b) Repeal of section 72(e) (3)-----	234
(c) Statute of limitations-----	234
(d) Technical amendments-----	235
(e) Clerical amendments-----	236
(f) Effective date-----	237

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 222. Repeal of additional 2-percent tax for corporations filing consolidated returns.	Page
(a) Repeal of tax-----	238
(b) Technical and conforming amendments-----	238
(c) Effective date-----	246
Sec. 223. Reduction of surtax exemption in case of certain controlled corporations, etc.	
(a) In general-----	246
“Sec. 1561. Surtax exemptions in case of certain controlled corporations.	
(a) General rule-----	247
(b) Certain short taxable years-----	247
“Sec. 1562. Privilege of groups to elect multiple surtax exemptions.	
(a) Election of multiple surtax exemptions-----	248
(b) Additional tax imposed-----	249
(c) Termination of election-----	251
(d) Election after termination-----	253
(e) Manner and time of giving consent and making election, etc.-----	253
(f) Special rules-----	254
(g) Tolling of statute of limitations-----	255
“Sec. 1563. Definitions and special rules.	
(a) Controlled group of corporations-----	256
(b) Component member-----	258
(c) Certain stock excluded-----	261
(d) Rules for determining stock ownership-----	264
(e) Constructive ownership-----	265
(f) Other definitions and rules-----	269
(b) Disallowance of surtax exemption and accumulated earnings credit-----	272
(c) Technical amendments-----	275
(d) Effective date-----	277

TITLE III—OPTIONAL TAX ON INDIVIDUALS; COLLECTION OF INCOME TAX AT SOURCE ON WAGES

Sec. 301. Optional tax if adjusted gross income is less than \$5,000.	
(a) Optional tax-----	278
(b) Rules for optional tax-----	289
(c) Effective date-----	291
Sec. 302. Income tax collected at source.	
(a) Percentage method of withholding-----	291
(b) Wage bracket withholding-----	292
(c) Withholding of tax on certain nonresident aliens-----	304
(d) Effective dates-----	304

SECTION 14

**PRESS RELEASES ISSUED BY THE SENATE COMMITTEE
ON FINANCE**

2079

Press Release No. 1

DECEMBER 12, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

Senator Long proposed his simplified tax method amendment 228, which would permit certain taxpayers to elect to avoid for 5-year periods the graduated tax rates if they forgo special credits, exclusions, and deductions. The rates under the amendment would be 40 percent of the first \$50,000 of simplified taxable income and 50 percent of such income in excess of \$50,000 with appropriate adjustments for joint returns and heads of household.

Senator Douglas proposed as a substitute therefor that the simplified tax method be on a compulsory basis for incomes of \$60,000 or over. This motion was rejected by a vote of 2 to 14.

Senator Gore proposed that the Long amendment be modified to include capital gains in the subject income. This motion was agreed to by vote of 9 to 7.

The Long amendment as modified is pending. The committee will resume consideration of the tax bill Friday, December 13, 1963, 10 a.m.

The committee announced that public hearings would be held on the bill H.R. 8864, to ratify the International Coffee Agreement, on Monday, December 16, 1963, at 10 a.m., followed by an executive session thereon if time permits.

Press Release No. 2

DECEMBER 13, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

The committee continued its consideration of the Long amendment No. 228, providing a simplified tax method. With the modifications indicated below, the committee tentatively approved the amendment by a vote of 9 to 5, with the understanding that the provision is still subject to amendment. The modifications considered by the committee with respect to the Long amendment are as follows:

(1) The committee reconsidered its vote of December 12 by which it adopted the Gore amendment (to tax all capital gains as ordinary income when this election is made). The resulting vote was an 8 to 8 tie; thus, the Gore amendment was not adopted. Therefore, class A type capital gains under the Long amendment will continue to be subject to an alternate rate of 21 or 25 percent.

(2) The committee considered an amendment proposed by Senator Douglas which would have made the election to use the

simplified tax method more binding on the taxpayer. The Long amendment provided that the taxpayer could revoke the election within the 5-year period if he established to the satisfaction of the Treasury that good cause existed for the revocation. The Douglas amendment would have removed this grounds for revocation. The Douglas amendment was defeated by a vote of 8 to 4.

(3) A "nonseparability" clause was added to the Long amendment. Thus, if any portion of the amendment should be declared unconstitutional, the entire amendment would be void.

(4) For those electing the simplified tax method, the gain in stock options would be taxed as ordinary income at the time of exercise.

The committee next considered the Hartke amendment No. 272, providing a tax credit for political contributions. The amendment provides a credit against tax equal to one-half of the contribution made during the year up to \$20, in the case of a separate return, or up to \$40 in the case of a joint return. The amendment applies to political contributions or gifts to a political candidate or committee if the contribution is to further the candidacy of one or more individuals in a general or special election. This amendment remained the pending order of business when the committee adjourned. However, two modifications of the amendment were considered:

(1) A modification by Senator Talmadge was adopted to include in the allowable contributions those for primaries as well as general elections.

(2) An amendment was offered by Senator Dirksen to raise the maximum allowable contribution to be taken into account from \$20, in the case of a separate return, to \$50 and from \$40, in the case of a joint return, to \$100. The modification was rejected by a vote of 7 to 4.

At the request of the Department of State and the administration, the hearings on H.R. 8864, to ratify the International Coffee Agreement, scheduled for Monday, December 16, 1963, have been canceled and will not be held until after the first of the year when committee consideration of the Revenue Act of 1963, H.R. 8363, has been completed.

Press Release No. 3

DECEMBER 16, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. The committee continued its consideration of the Hartke amendment No. 272 providing a tax credit for political contributions. As considered by the committee, this amendment provides a credit against tax equal to one-half of the contribution made during the year. The amount for which credit may be taken may not exceed \$20 in the case of a separate return or \$40 in the case of a joint return. The amend-

ment applies to political contributions or gifts to a political candidate or committee if the contribution is to further the candidacy of one or more individuals in a general, primary, or special election. This amendment was rejected by the committee by a vote of 11 to 5.

2. The committee adopted an amendment offered by Senator Curtis to allow a tax deduction for political contributions not to exceed \$50 in the case of a separate return or \$100 in the case of a joint return. These limitations are aggregate limitations covering all political contributions. This deduction is available to anyone claiming itemized deductions but, as in the case of other personal deductions, is not available to those using the standard deduction.¹ The vote was 11 to 5 in favor of the amendment.

3. Senator Bennett offered the Gruening amendment No. 204. Presently, exploration expenditures in the case of mining are limited to \$100,000 in any one year and \$400,000 in all years in the case of a successful exploration. The Gruening amendment, which would have removed these two limitations, was rejected by the committee by a voice vote.

4. Senator Bennett offered an amendment raising the aggregate allowable deduction for exploration expenditures from \$400,000 to \$600,000. This was rejected by the committee by a voice vote.

5. Senator Anderson offered an amendment which was approved by a voice vote of the committee which deals with general tax liens. The amendment provides that general tax liens (as well as estate and gift tax liens) are not to be valid against mortgagees, pledgees, and purchasers of motor vehicles who are without actual notice or knowledge of the existence of these liens.

6. Senator Williams offered the Neuberger amendment No. 209 dealing with the child-care provision. This amendment was approved by a voice vote of the committee. Present law, and the House-passed bill, provide that the child-care deduction is available in the case of working wives only where the combined income of the husband and wife does not exceed \$4,500 (a decreasing allowance is available up to \$5,200). The amendment increases the \$4,500 limitation to \$7,000. It was also provided that the \$7,000 limitation was to apply in the husband-and-wife case where the wife is incapacitated. The House bill provides that the child-care deduction may not exceed \$600 where there is one child or \$900 where there are two or more children. This amendment provides the same \$600 limitation for one child, the same \$900 limitation for two children, but provides where there are three or more children that the deduction may not exceed \$1,000. The \$900 and \$1,000 limitations where there are two or three or more children is also made applicable in the case of a working wife. Under the House bill, the maximum in such a case was \$600.

7. The committee, by a voice vote, rejected the Hartke amendment No. 276 relating to the 10-percent excise tax on musical instruments. This amendment would have provided an exemption from this tax for instruments used by a student in an orchestra, band, etc., sponsored by an educational organization.

¹ See item 2. The contributions for which a deduction may be taken are defined in the same manner as the contributions for which a credit would have been allowed under the prior amendment.

Press Release No. 4

DECEMBER 17, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. The committee rejected the Long amendment No. 229 which relates to travel and entertainment expenses, by a voice vote. This amendment would repeal the limitation on the deduction of gifts and the provision relating to travel expenses where the travel combines business and pleasure. The amendment also substitutes a test of "reasonableness" for the present tests relating to activities and facilities. Modifications would also be made in the substantiation requirements.

2. Senator Talmadge offered an amendment which would provide a 100-percent rather than an 85-percent deduction for dividends paid by one corporation to another where they are under 80 percent common control and a part of the same "affiliated group." This would not be available to groups of corporations claiming multiple surtax exemptions. This amendment was referred to the staffs for study and report back to the committee.

3. The committee also discussed but did not vote upon the McCarthy amendment No. 309. This amendment provides that financial institutions subject to the banking laws of the State of incorporation (including amounts received from the sale of face amount certificates) are to be treated in the same manner as banks for purposes of the provision disallowing interest deductions for amounts borrowed for investment in tax-exempt bonds. By ruling, banks are not denied a deduction in this case.

Press Release No. 5

DECEMBER 18, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. The committee approved the Dirksen amendment No. 362 which empowers the Secretary of the Treasury to designate union-negotiated pension plans as "qualified" for tax purposes for the period beginning on the date the plan was created rather than as under present law on the date it actually becomes a "qualified plan."

2. The committee rejected the Hartke amendment No. 278 which was offered by Senator Dirksen. This amendment would make section 206 of the House bill apply to taxpayers age 62 or over who sell their personal residences (rather than age 65 or over).

3. The committee rejected the Fong amendment No. 338 which was offered by Senator Bennett. This amendment would permit a lessee under a lease for 20 years or more to deduct real property taxes paid by him if the lease requires him to pay these taxes and if his residence is situated on the leased land.

4. The committee referred to the Treasury and joint committee staffs the Long amendment No. 333. This amendment would allow taxpayers to carry expropriation losses forward and deduct them over a 10-year period following the year of loss. The amendment also provides rules for taxing recoveries on expropriation losses. In addition, the staffs were requested to investigate the treatment of nonbusiness losses of individuals in the case of expropriation. The report was to be made early next year.

5. Senator Gore asked the Treasury and joint committee staffs to report on the stock options issued by the Chrysler Corp. on which there had been recent newspaper stories.

6. The staffs are to report back to the committee on Dirksen amendment No. 359. This amendment increases the annual dollar limitation on the amount of capital losses which may be deducted from ordinary income from \$1,000 at present to (a) \$2,000 in 1964, (b) \$3,000 in 1965, (c) \$4,000 in 1966, and (d) \$5,000 in 1967 and thereafter.

7. The Treasury staff was asked to report back to the committee on Senator Carlson's bill S. 110. This bill provides a deduction for capital improvements for the repair, maintenance, alteration, or additions to the personal residence of a taxpayer to the extent of 3 percent of his adjusted gross income but in no event over \$2,000.

8. The committee, when it adjourned, was considering the Smather's amendment No. 351. This amendment repeals the provision enacted by the Revenue Act of 1962 which requires the allocation of travel expenses in the case of certain trips combining business and personal purposes. This amendment also would delete travel expenses from the recordkeeping requirements provided by the Revenue Act of 1962. However, this latter provision has been withdrawn and the committee is considering the travel-allocation rule only.

Press Release No. 6

DECEMBER 19, 1963.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. The committee adopted the Smathers amendment No. 351 relating to the travel-allocation rule. (The Smathers amendment was modified so as not to apply to the travel substantiation rules. Previously discussed press release No. 5.)

2. The committee approved the amendment previously discussed (press release No. 4) offered by Senator Talmadge which would grant corporations a 100 percent intercorporate dividend deduction where the dividend was paid by one corporation to another in the same 80 percent commonly controlled group. This 100-percent deduction is not available to corporations claiming more than one surtax exemption. The committee provided that corporations claiming the 100-percent deduction will receive only one \$100,000 exemption for the group for unreasonably accumulated earnings and only one \$100,000

exclusion for the group from the speedup of the corporation tax payments. Other modifications were also made.

3. The committee approved the Dirksen amendment No. 371 which makes a clerical amendment to allow fire and casualty insurance companies a deduction for contributions to pension, profitsharing, or stock-bonus plans.

4. The committee approved the Dirksen amendment No. 361 which makes it possible for domestic corporations to include U.S. citizens employed abroad by subsidiary corporations in the parent's qualified pension plan where they are also covered for social security purposes. The committee modified the amendment so that the deduction for the contributions may be claimed by the subsidiary rather than the domestic parent. The amendment was also limited to apply only to pension plans.

The committee will resume consideration of the tax bill on Wednesday, January 8, 1964.

Press Release No. 7

JANUARY 8, 1964.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. *Section 1. Declaration by Congress.*—Senator Dirksen offered a substitute for this provision which in general would have indicated that it was the sense of Congress, barring unforeseen emergencies, that congressional appropriations and spending during the transition period should not exceed the amounts appropriated and spent in the fiscal year 1964. This substitute was rejected by a 9 to 2 vote. Then the committee, by voice vote, deleted section 1 from the bill.

2. *Section 2. Short title.*—The committee amended the title of the bill so that it is to be cited as the "Revenue Act of 1964."

3. *Section 111. Reduction of tax on individuals.*—The committee considered a substitute rate schedule coupled with other provisions which was offered by Senator Douglas. This rate schedule would range from approximately 10 to 50 percent. His motion would also have denied all personal deductions except those for charitable contributions (not including the unlimited deduction), would have denied the 10 percent standard deduction (but not the minimum standard deduction in the bill), would include all capital gains in the tax base as ordinary income, would tax presently tax-exempt interest, would include pension income in the tax base as the amounts accrued to the benefit of the employee, would deny the excess of percentage over cost depletion, would deny the dividend and retirement income credits, would deny extra personal exemptions for the aged or blind, and would tax unrealized capital gains at death. In addition, excess of percentage over cost depletion would be denied as a deduction to corporations and presently tax-exempt interest would be included in their tax base. This amendment was rejected by a vote of 11 to 1. The section on individual income tax rates was then passed over by the committee for consideration at a later date.

4. *Section 112. Minimum standard deduction.*—Under the House bill the minimum standard deduction subject to the overall limitation of \$1,000 is to amount to \$100 for each exemption plus \$200. Senator Douglas offered an amendment to increase the \$200 referred to here to \$400. Senator Douglas coupled with this increase in the minimum standard deduction a smaller reduction in the corporate rate than provided by the House bill. He would have reduced the corporate rate in 1964 to 51 percent (instead of 50 percent) and in 1965 would have reduced the rate to 50 percent (rather than 48 percent). Senator Douglas' amendment was rejected by a vote of 12 to 1. The committee then approved the section of the House bill.

5. *Section 113. Related amendments.*—This section related to the retirement income credit and tax on nonresident alien individuals, was approved subject to the understanding that the rates referred to in this section would be conformed with any individual income tax rates ultimately adopted.

6. *Section 121. Reduction of tax on corporations.*—Senator Douglas offered an amendment which would have provided the same corporate rate reduction as his amendment described immediately above. With this amendment, he coupled the repeal of the following excise taxes: general telephone service, electric light bulbs, matches, fountain and ballpoint pens and mechanical pencils, cabarets and roofgardens, transportation of persons by air, and the 10-percent tax on jewelry to the extent it now covers silver-plated flatware. This amendment was rejected by a vote of 11 to 2. The Sparkman amendment No. 365 which would have increased the surtax-exemption from \$25,000 to \$50,000 was rejected by a voice vote. Following this the corporate rate changes provided by the House bill were approved.

Press Release No. 8

JANUARY 9, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. *Section 122. Current tax payments for corporations.*—The committee adopted the House provision without change.

2. *Section 123. Related amendments.*—The committee adopted the House provision without change. These are conforming amendments relating to mutual insurance companies other than life and relating to minimum distributions by domestic corporations from foreign subsidiaries. The conforming amendments are related to the corporate rate changes previously adopted by the committee.

3. *Sections 131 and 132. Effective dates, general rule, and fiscal year taxpayers.*—The committee adopted the House provisions without change.

4. *Section 201. Dividends received by individuals.*—A motion offered by Senator Morton for Senator Dirksen would have deleted this provision and restored existing law. This motion was defeated. This

provision was not formally adopted, however, but rather was left open for the consideration of further amendments.

5. *Section 202. Investment credit.*—This provision was passed over.

6. *Section 203. Group-term insurance purchased for employees.*—Senator Ribicoff offered a motion to delete this provision from the bill. This motion was adopted.

7. *Section 204. Reimbursed medical expenses in excess of expenses incurred.*—The committee adopted this provision of the House bill without change.

8. *Section 205. Wage continuation payments (sick pay).*—A motion by Senator Ribicoff to delete this provision was defeated. A motion by Senator Douglas to make the sick pay exclusion available where the individual is absent from work more than 14 days was defeated.

9. *Section 206. Exclusion from income of gain on sale of residence of individual age 65 or over.*—The committee adopted this provision of the House bill without change.

10. *Section 207. Denial of deduction for certain State, local, and foreign taxes.*—Senator Williams offered an amendment to restore the deductibility of State and local gasoline taxes and automobile registration fees (the latter includes auto tags and drivers' licenses). This amendment was adopted. This amendment was initially suggested by Senator Byrd. The committee then adopted the provision as amended.

Press Release No. 9

JANUARY 9, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. *Section 208. Personal casualty and theft losses.*—The committee adopted the House provision without change.

2. *Section 209. Charitable, etc., contributions and gifts.*—The committee adopted the House provision increasing from 20 to 30 percent the allowable charitable contribution deductions for amounts going to substantially all charities except private foundations. The committee also adopted the House provision providing a 5-year carryover for contributions of corporations in excess of the 5-percent limitation. However, in this case the House provision was amended by the adoption of the Smathers amendment numbered 355. This amendment in effect makes the 5-year carryforward available for contributions made in 1962 and 1963 as well as those made in subsequent years. The committee substantially modified the House provision relating to gifts of future interest (such as pictures and paintings where the individual retains the painting or picture for his own life but provides that on his death the painting or art object will go to a museum). The House provision would have denied a current deduction for charitable contributions where a life interest was reserved in anyone other than the donor or his wife. The committee modified this provision to provide that in any case where a life interest is reserved, the charitable contribution will not be available (whether reserved for the donor's life or anyone else's life).

Press Release No. 10

JANUARY 10, 1964.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 204. Reimbursed medical expenses in excess of expenses incurred.*—The committee reconsidered its action of January 9, and deleted this provision of the House bill.

2. *Section 209. Charitable, etc., contributions and gifts.*—The committee modified its action of January 9 with respect to the charitable contribution deductions to provide that individuals making charitable contributions in excess of the 30-percent limitation may carry these excess contributions over for a period of up to 5 years. This carry-over is available only with respect to contributions that qualify in the 30-percent category (as amended by the House bill and as approved by the Committee on Finance).

3. The committee unanimously directed the chairman of the committee to send a letter to the Secretary of the Treasury requesting that he make a study of possible abuses of private foundations under the internal revenue laws and report back to the committee on this by the end of the year if possible.

The committee will resume consideration of the tax bill on Monday, January 13, 1964.

Press Release No. 11

JANUARY 13, 1964 (Revised).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT OF 1963 (H.R. 8363)

1. *Section 202. Investment credit.*—The committee adopted the House bill provision with only minor technical changes. The House provision repeals the requirement of existing law that the basis of property eligible for the investment credit be reduced by the amount of the credit increases the basis on which the investment credit is to be computed where property is leased by a wholesaler rather than by the manufacturer, provides that elevators and escalators are to be eligible for the investment credit, and specifies the treatment to be accorded the investment credit for Federal regulatory agencies in determining their rate schedules, etc.

2. *Amendment No. 320. Unlimited charitable contribution deduction.*—The committee rejected this amendment which would remove the provision in present law which permits an unlimited charitable contribution deduction in those cases where the contributions and taxes of the individual involved in 8 out of the last 10 years represent 90 percent of his income. The committee also considered a variation of this amendment which would limit this "unlimited charitable contribution deduction" to charitable organizations other than private foundations. The staffs were instructed to prepare a draft of this amendment for consideration of the committee at a subsequent meeting.

3. *Section 210. One-percent limitation on medicine and drugs.*—The committee approved the provision in the House bill without change.

4. *Section 211. Child care.*—The committee previously had adopted an amendment to the child care provision in the House bill (Neuberger amendment No. 209, offered by Senator Williams—see press release No. 3). The committee approved the child care provision in the House bill as previously modified by the Neuberger-Williams amendment.

5. *Section 212. Moving expenses.*—The committee adopted the Morton amendment No. 375 which provides that where an employer reimburses an employee for certain expenses in connection with the sale of his house, that this amount is to be treated as a part of the sales price of the house rather than compensation received by the employee. The amounts referred to cover any losses by the employee attributable to the forced sale of his house and also the selling expenses incurred by him in connection with that sale. With the inclusion of this amendment the moving expense provision of the House bill was adopted by the committee.

6. *Section 213. Interest on loans incurred to purchase certain insurance and annuity contracts.*—The committee adopted the House provision without change.

Press Release No. 12

JANUARY 14, 1964.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 214. Employee stock option and purchase plans.*—The committee adopted this provision with three modifications. First, it amended the provision to provide that options granted after June 11, 1963, and before January 1, 1965, which do not in all respects meet the terms of a "qualified option" may be modified to meet those terms without the modification being considered a new option. The second and third amendments related to the so-called reset provisions. The first of these two modifications provides that where one qualified option is granted on an installment basis and then subsequently a second qualified option is granted, that the second option can be exercised before the first if the option price of this second option is higher than that of the first. The second of these two modifications deals with the case where the option price of the second option is lower than that of the first. In such cases the employer will be permitted to accelerate the exercise date with respect to the installments of the first option without this being considered a modification of the terms of this option.

The following stock option amendments were considered by the committee but rejected:

(1) The committee considered extending the option period from 5 years to 10 years;

(2) The committee considered providing a general effective date for the provision of January 1, 1964;

(3) The committee considered a provision repealing the stock option provisions for options granted after January 14, 1964;

(4) The committee considered a provision retaining capital gains treatment for stock options but providing for the taxation of this gain at the time of exercise of the option; and

(5) The committee considered a 2-year holding period for the stock instead of a 3-year holding period.

2. *Section 215. Interest on certain deferred payments.*—The committee adopted the Smathers amendment No. 358, which provides that the new provision of the House bill will not apply to binding written contracts (including options) entered into before July 1, 1963. The committee also deleted subsection (c) of section 215, which would have provided that an interest deduction is to be available for separately stated carrying charges attributable to services as well as to personal property as under existing law.

3. *Unlimited charitable contribution deductions in the case of private foundations.*—The committee, on January 13, considered deleting from present law the unlimited charitable contribution deduction. This provision makes available an unlimited charitable contribution deduction where contributions and taxes of the individual involved in 8 out of the last 10 years represent 90 percent of his income. At that time the committee instructed the staffs to prepare an amendment which would make the unlimited charitable contribution deduction unavailable in the case of charitable contributions to private foundations (i.e., those not eligible for the 30 percent charitable contribution deduction under the House bill). The staffs reported back with such an amendment today and it was adopted by the committee.

Press Release No. 13

JANUARY 15, 1964.

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

SECTION 216. PERSONAL HOLDING COMPANIES

The committee approved the personal holding company provision of the House bill with the following modifications:

1. Subsection (j) relating to the increase in basis with respect to certain foreign personal holding companies was deleted.

2. In the case of tangible personal property normally rented for not more than 1 year to one lessee, the committee provided that for purposes of determining the 50 percent test in the case of rental income, depreciation attributable to this short-term rental is not to be deducted.

3. The House bill provides that one of the two tests which must be met for rental income not to be considered as personal holding company income is that personal holding company income (apart from the rent) may not constitute 10 percent or more of the unadjusted gross income of the company. The committee modified this to provide that this 10 percent test will be considered as met if 85 percent of all dividend income is paid out (either actually or through consent dividends) and if all personal holding company income (other than rents) to the extent it exceeds 5 percent of unadjusted gross income also is paid out.

4. A number of technical modifications were provided in the transitional relief provisions which the House bill provides for corporations which have not been personal holding companies but would be under the House provision. These include a provision to the effect that if a corporation attempts to qualify under the new liquidation provision provided in the bill, but then subsequently finds that it was not eligible for this section 333 treatment, it may elect to convert the liquidation to the treatment provided by section 331; corporations will have until January 1, 1967, rather than January 1, 1966, to accomplish the liquidations referred to (but will only avoid payment of personal holding company tax prior to the liquidation if they liquidate before January 1, 1966); the debt which may be amortized before income for these corporations is considered as personal holding company income, is to be the debt incurred prior to January 1, 1964, rather than prior to August 1, 1963; the corporations will determine their qualification for these special relief provisions on the basis of their status in the taxable years ending in 1961 and 1962 rather than the 2 years immediately preceding the enactment of the bill; and, for the future, mineral royalties are to include production payments and overriding royalties.

Press Release No. 14

JANUARY 16, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 216. Personal holding companies, etc.*—The amendment adopted January 15 with respect to personal holding companies (release No. 13, item No. 2) was changed so that for purposes of determining the 50-percent test in the case of rental income, depreciation attributable to this rental income is not to be deducted in the case of tangible personal property normally rented for not more than 3 years to one lessee (instead of 1 year to one lessee). In addition, in the case of "contract plans," organized to receive periodic payments where these funds are used to purchase stocks in a mutual fund, an amendment was added to make it clear that if the plan sells stock of the mutual fund to redeem the interest of a person who wants to get out of the plan, the capital gain will not be taxed to the plan (but will continue to be taxable to the person).

2. *Section 217. Treatment of property in the case of oil and gas wells.*—The committee adopted the House provision relating to the aggregation of property in the case of oil and gas wells without change.

The committee also adopted a provision to the effect that if a foreign tax on a foreign mineral operation exceeds the U.S. tax on the same operation, and this excess is attributable to the allowance of percentage depletion, then this excess foreign tax paid will not be allowed as a foreign tax credit against U.S. tax otherwise due on foreign nonmineral income. Mineral income in this case includes not only oil and gas income but also income attributable to all other

minerals eligible for percentage depletion. This amendment applies to taxable years beginning after December 31, 1963.

The committee also considered but rejected the following proposals:

(1) Senator Douglas offered his amendment No. 368, which would have provided a graduated percentage depletion allowance. The allowance would be 27½ percent on gross income not in excess of \$1 million, 21 percent on this income from \$1 to \$5 million, and 15 percent on this income in excess of \$5 million.

(2) Senator Williams offered his amendment No. 341, which would reduce all percentage depletion allowance in excess of 20 percent to that figure. Thus, the allowance for oil and gas would be reduced from 27½ to 20 percent, that for uranium and sulfur would be reduced from 23 to 20 percent, and that for certain other mineral deposits specified in the code from U.S. sources would be reduced from 23 to 20 percent.

(3) Senator Gore offered an amendment to reduce the net income limitation for various minerals from 50 to 33⅓ percent. Under present law, the percentage depletion allowance is either a specified percentage of gross income from the property or 50 percent of net income from the property, if this is less.

(4) Senator Williams offered two amendments which were considered together. The first of these would provide a carryover of intangible drilling and related expenses to the extent they exceed the income from the property. In the year to which these amounts are carried they would be considered as reducing the income subject to the 50 percent net income limitation. The second proposal would provide that on the sale of a mineral property a portion of any gain realized might be treated as ordinary income. The amount which would be considered as ordinary income at time of sale would be the intangible drilling and related expenditures, as well as any depletion taken to the extent of the taxpayer's basis in the property.

(5) Senator Douglas offered an amendment to provide that in the case of foreign oil where the taxing and leasing authorities are the governmental unit, that the amounts specified as taxes in this case should be treated for tax purposes in the same manner as royalty payments; that is, they be excluded in computing income rather than allowed as a credit against tax.

(6) Senator Bennett offered an amendment to make the House provision relating to the aggregation of property effective for taxable years ending after December 31, 1964.

Press Release No. 15

JANUARY 16, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 218. Treatment of certain iron ore royalties.*—The committee adopted the House provision with two modifications. Under the modifications the capital gains treatment will not be available in

the case of foreign leases and will not be available where the same parties or substantially the same parties directly or indirectly own the iron ore property and operate it.

2. *Section 219. Capital gains and losses.*—The committee passed over this provision leaving it for future consideration.

3. *Section 220. Gains from dispositions of certain depreciable realty.*—The committee accepted the House provision without change.

4. *Section 221. Averaging.*—The committee accepted the House provision without change.

5. *Section 222. Repeal of additional 2-percent tax for corporations filing consolidated returns.*—The committee accepted the House provision without change.

Press Release No. 16

JANUARY 17, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 219. Capital gains and losses.*—The committee struck this section of the House bill.

2. *Amendment No. 337. Treatment by regulatory agencies in the case of a consolidated group.*—The committee rejected an amendment which would prohibit Federal regulatory agencies without the consent of the taxpayer from using income, deductions, and credits which arise from or are directly related to nonregulated activities of a consolidated group to reduce the taxpayers' Federal income tax in establishing rates.

3. *Section 223. Reduction of surtax exemption in case of certain controlled corporations.*—The committee approved the House provision without change. In its consideration of this section, it considered the following amendments, all of which were rejected:

(a) Senator Long moved that in the case of a parent and a series of subsidiaries meeting the 80 percent common ownership test of the House bill that the number of surtax exemptions for the group be limited to one.

(b) Senator Long moved that in the case of a parent and a series of subsidiaries meeting the 80 percent common ownership test of the House bill that the number of surtax exemptions for the group be limited to not more than five. The 6-percent penalty provision of the House bill would continue to apply with respect to the first five exemptions.

(c) Senator Dirksen moved that section 1551 of the code which under the House version of the bill applies to transfers by corporations directly or "indirectly" of all or part of its property other than money to a transferee corporation be modified by striking out the reference to "indirectly." The House provision by adding the word "indirectly" denies multiple surtax exemptions where a corporation is split up and money is transferred to the new corporation which in turn is used to purchase property from the first corporation.

This completes the committee's tentative action on all of the House provisions except those relating to individual income tax rates.

Press Release No. 17

JANUARY 17, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *An amendment relating to section 207 of the bill dealing with the deduction for certain State and local taxes.*—The committee adopted an amendment which provides for a deduction for taxes levied by a district described in section 164(b)(5)(B) of the code for the purpose of retiring indebtedness existing on the date of the enactment of the bill. The section of the law referred to provides for the deduction of taxes levied by a special taxing district if the district covers at least 1 county, at least 1,000 persons are subject to the taxes levied, and the district levies its assessments annually at a uniform rate at the same assessed value of real property as is used generally for purposes of the real property tax.

2. *Long amendment No. 347. Market discount; capital gains.*—This amendment provides capital gains treatment on market issue discount in the case of life insurance companies and small mutual fire and casualty insurance companies. The committee adopted this amendment.

3. *Hartke amendment No. 275. Installment sales treatment for revolving credit.*—This amendment provides that revolving credit plans may be eligible for installment sales treatment for tax purposes. This amendment was agreed to by the committee.

4. *Long amendment No. 332. The depletion of physical strength, etc., of professional athletes.*—This amendment would allow professional athletes to deduct, in computing their income, an amount representing the depletion of their strength, stamina, and skills used in professional sports. The deduction would be 1 over the "career span" for the particular form of athletics involved multiplied by the athlete's income for the year in question. The committee did not agree to this amendment.

The committee also considered but then withdrew for future study an amendment which would apply the "recapture" rule now in the bill for real property both to personal property and real property where an entire business or farm is sold in one transaction.

Press Release No. 18

JANUARY 20, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Amendment No. 337. Treatment by regulatory agencies in the case of a consolidated group.*—The committee reconsidered its action on January 17 (see press release No. 16, item 2). The amendment, however, was again rejected. This amendment would prohibit Federal regulatory agencies without the consent of the taxpayer from

using income, deductions, and credits which arise from or are directly related to nonregulated activities of a consolidated group to reduce the taxpayers' Federal income tax in establishing rates.

2. *Section 214. Employee stock options and purchase plans.*—The committee reconsidered its action of January 14 relative to the effective date for the stock option provision (see press release No. 12, item 1 (2)). The committee agreed to move up the general effective date for the stock option provision to January 1, 1964.

3. *Amendment No. 361. Qualified plan coverage for U.S. citizens employed abroad.*—On December 19 (see press release No. 6, item 4) the committee approved this amendment which makes it possible for domestic corporations to include U.S. citizens employed abroad by subsidiary corporations in the parent's qualified pension plan where they are also covered for social security purposes. At that time, the amendment was limited so as to apply only to pension plans. The committee modified that prior action to also extend this treatment to profit-sharing plans. The amendment previously made to the effect that deductions for contributions may be claimed only by the subsidiary (and not the domestic parent) was not changed.

4. *Amendment No. 380. Repeal of retailers' excise taxes.*—The committee considered but rejected this amendment which would repeal the retailers' excise taxes on jewelry, furs, toilet preparations, and luggage. This amendment would have been effective for the first day of the first month beginning after the date of enactment of this bill.

5. *Admissions tax, legitimate theater.*—The committee agreed to an amendment exempting from the 10-percent admissions tax, performances in the legitimate living theater.

6. *Amendment No. 359. Increase in amount of ordinary income which may be offset by capital losses.*—The committee considered but rejected an amendment which would have increased from \$1,000 to \$2,000 in 1964, to \$3,000 in 1965, to \$4,000 in 1966, and \$5,000 in 1967 and subsequent years the amount of ordinary income which may be offset by capital losses.

7. *Four-percent dividend credit with a \$1,000 maximum.*—The committee considered but rejected an amendment which would have continued the present allowance of a 4-percent credit for dividends received by individuals but with a maximum credit of \$1,000 (a 4-percent credit on \$25,000 of dividend income). The dividend credit was previously considered by the committee on January 9 (see press release No. 8, item 4.)

Press Release No. 19

JANUARY 20, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Amendment No. 354. Corporate reorganizations.*—The committee adopted the amendment which broadens the tax-free reorganization provisions to include exchanges of stock of a corporation which controls the acquiring corporation for stock of the acquired corporation.

2. *Regulated investment companies.*—The committee adopted the text of H.R. 6995 which was recently reported by the House Committee on Ways and Means. This provision specifies that regulated investment companies are to have until 45 days after the close of their taxable years, rather than 30 days after the close of these years, to notify their shareholders of certain tax features of the law which are to apply with respect to distributions made to them. This longer period will be available with respect to notifications as to capital gain dividends, undistributed capital gains attributed to shareholders, foreign tax credits, amount of distributions treated as dividends, and dividends which are to be treated as paid out of the earnings of the prior year.

3. *One hundred-percent dividends received deduction.*—The committee previously adopted an amendment granting corporations a 100-percent intercorporate dividend deduction where the dividend is paid by one corporation to another in the same 80 percent commonly controlled group (see press release No. 6, item 2). Under the prior action, the 100-percent dividend deduction was not available in the case of dividends paid to a life insurance company. The committee modified that action to make the 100-percent dividend deduction available in such cases.

4. *Section 203. Group-term life insurance purchased for employees.*—The committee on January 9 deleted the House provision relating to group-term insurance. The committee reconsidered that action and restored the House provision to the bill with the following modifications:

(a) An exclusion is provided with respect to premiums attributable to the first \$50,000 of insurance rather than the first \$30,000 as provided by the House bill.

(b) The group-term insurance which is taxable will not be subject to withholding.

(c) The “actual cost” method of computing the cost of group-term insurance was deleted from the House bill. Thus, the only method of determining the cost will be the 5-year tabular system specified by the Secretary of the Treasury.

(d) The committee deleted the special deduction available in computing taxable income for contributions made by the employee in excess of his own costs in the case of group-term insurance protection above the \$30,000 level.

5. *Amendment No. 361. Qualified plan coverage for U.S. citizens employed abroad.*—In press release No. 6 (item 4) and press release No. 18 (item 3) the committee approved this amendment and extended it to profit sharing as well as pension plans. This amendment makes it possible for domestic corporations to include U.S. citizens employed abroad by subsidiary foreign corporations in the parent’s qualified pension or profit-sharing plan where they are also covered for social security purposes. The committee extended this amendment to cover cases of employees in domestic subsidiaries which are 80-percent owned with respect to their employees abroad who are U.S. citizens or resident aliens.

6. *Excess foreign tax credits attributable to percentage depletion.*—On January 16 (press release No. 14, item 2, par. 2) the committee adopted a provision to the effect that if a foreign tax on foreign min-

eral production exceeds what the U.S. tax would be on the same production, and this excess is attributable to the allowance of percentage depletion, then this excess foreign tax will not be allowed as a foreign tax credit against U.S. tax otherwise due on foreign nonmineral production income. An amendment was offered, but rejected, which would have permitted these excess foreign tax credits to be applied against nonmineral income to the extent this income is from a business which related to mineral production.

Press Release No. 20

JANUARY 21, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *H.R. 4040. Relating to contested deductions.*—The committee approved a modified version of H.R. 4040 in the form ordered reported by the House Committee on Ways and Means. This bill provides that, in general, contested deductions may be taken into account in the year in which the amounts involved are paid rather than awaiting the settlement of the contest.

2. *Amendment No. 309. Interest relating to tax-exempt income.*—This amendment which was previously discussed but not voted upon (see press release No. 4, item 3) provides that financial institutions subject to the banking laws of the State of incorporation (including amounts received from the sale of face amount certificates) are to be treated in the same manner as banks for purposes of the provision disallowing interest deductions for amounts borrowed for investment in tax-exempt securities. By ruling, banks are not denied a deduction in this case. The committee approved this amendment with two modifications. First, it provided that the amendment is not to be available unless the holdings of the financial institution in tax-exempt securities do not exceed 25 percent of the total holdings. Second, the change is to apply only for 1965 and subsequent years. However, no inference is to be drawn as to the law in effect in prior years.

3. *Amendment No. 378. Motion picture and television films and tapes.*—The committee considered but rejected a motion to make the investment credit available in the case of motion picture and television films and tapes produced in the United States.

4. *Amendment No. 350. Treatment of liberalized depreciation by Federal regulatory agencies.*—The committee considered but rejected this amendment which would provide that Federal regulatory agencies in establishing rates for consumers are not to take into account any reduction in costs brought about by the excess of the deductions available under the fast-writeoff methods over the straight-line methods of depreciation.

5. *H.R. 7503. Capital gains treatment upon liquidation of small businesses.*—This amendment was considered but rejected by the committee. It provides that the recapture provisions of present law which result in ordinary income upon the sale of an asset by reason of de-

preciation previously taken, are not to apply in the case of small businesses and farms.

6. *Certain mutualization distributions by life insurance companies.*—This amendment which was agreed to by the committee extends for the year 1962 the deduction available under present law for prior years with respect to distributions to shareholders in acquisition of stock under a plan to mutualize a stock life insurance company.

7. *Section 205. Wage continuation payments (sick pay).*—The committee reconsidered its previous action (see press release No. 8, item 8). The committee considered but rejected a motion to restore the provision of present law but providing the exemption of only 75 percent of the sick pay up to \$100 a week rather than 100 percent of this amount.

8. *Manufacturers' excise tax on pens and mechanical pencils.*—The committee considered but rejected a motion to repeal the 10-percent excise tax on pens and mechanical pencils.

9. *Amendment No. 336. Air and water pollution abatement.*—The committee considered but rejected this amendment which would provide that the cost of expenditures for treatment works to control water and air pollution could be written off as the taxpayer saw fit within the 5-year period after acquisition of the works rather than capitalizing these expenditures as provided under present law.

10. *Intangible drilling and developing costs.*—The committee considered but rejected a motion denying the immediate writeoff for intangible drilling and development costs for gas and oil. Had this amendment been adopted, these expenditures would have been recouped as capital recoveries in the form of depletion.

11. *Amendment No. 381. Retirement income credit.*—The committee considered but rejected an amendment which would grant a retirement income credit of one-half of the maximum amount available to a taxpayer with respect to his spouse where the spouse did not have 10 years of prior earnings experience. In this case, the maximum retirement income credit would be \$762 multiplied by the applicable tax rate (20 percent under existing law or 15 percent under the House rate schedule).

Press Release No. 21

JANUARY 21, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Amendment No. 333. Expropriation losses.*—The committee considered and adopted a modified version of this amendment. The modified version relates only to the expropriation loss carryover and not to the recovery of these losses. A 10-year carryforward and no carryback is provided for expropriation losses if they represent 50 percent or more of the net operating loss. Expropriation losses are those arising from expropriation by foreign governments or their subdivisions.

2. *Amendment No. 329. Tax credit for expenses of higher education.*—The committee considered but rejected an amendment provid-

ing a tax credit of up to \$325 for expenses for tuition, fees, books, and supplies for higher education. The amount of the credit is graduated from 75 percent on the first \$200 of expenses, to 25 percent on the next \$300 of expenses, and to 10 percent on the next \$1,000 of expenses. The credit is also reduced by 1 percent of the adjusted gross income of the taxpayer in excess of \$25,000. One credit may be taken with respect to a student without regard to whether the person taking the credit is the parent of the student.

3. *Section 216. Personal holding companies.*—An amendment was offered but rejected to make the general effective date for the new personal holding company provision taxable years beginning after December 31, 1964, rather than December 31, 1963.

4. *H.R. 8798. Subchapter S election.*—The committee considered and adopted the text of H.R. 8798, a bill which has been ordered reported by the House Committee on Ways and Means. This provision relates to the election in present law for corporations to be taxed in a manner substantially similar to partnerships; i.e., for their income or losses to be passed through to their shareholders. To be eligible for this treatment, corporations may not be affiliated with any other corporations. This bill provides that they may be affiliated with other corporations if the other corporations have not up to that time engaged in a trade or business and have no taxable income for the year in question. Once any of these affiliates engage in trade or business or has taxable income, the subchapter S election will no longer be available.

Press Release No. 22

JANUARY 22, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *S. 1116. Relating to automotive manufacturers' excise tax.*—The committee considered but deferred for study a proposal to exempt from the 10-percent automotive excise tax "camper coaches" or "slide-in cabins."

2. *Section 216. Personal holding companies.*—The committee considered and adopted an amendment which in the case of consumer finance companies would make it clear that income derived from the rendering of services to or making facilities available to another consumer finance company in the same affiliated group would come within the definition of lending or finance business and that such income would not be considered as personal holding company income.

3. *Deduction for entertainment expenses.*—The committee considered but rejected a motion to delete the requirement in present law for deductible entertainment expenses which requires that there be a substantial business discussion before or after entertainment of the type where there is likely to be a substantial diversion (such as in the case of theaters, nightclubs, athletic games, etc.).

4. *H.R. 7516. Relating to taxation of cooperatives.*—The committee considered but rejected an amendment which would

treat as taxable income to tax-exempt cooperatives, income derived from business done with the Government whether or not this income was allocated to the accounts of other patrons.

5. *Section 214. Stock option provision.*—The committee considered but rejected a motion to provide that where an individual had been granted two or more options that the second option could be exercised before the first regardless of whether the option price in this case was below the option price for the first option.

6. *H.R. 5468. Credit or refund of self-employment tax in certain cases.*—The committee considered but rejected a provision which would have added to the bill the text of H.R. 5468, a bill which has been ordered reported by the House Committee on Ways and Means. This bill relates to cases where, as a result of agreements entered into between States and the Secretary of HEW, individuals have been covered retroactively for social security purposes where at the same time they were already covered as a result of self-employment income. In this case, the bill would allow a credit or refund for self-employment income for a barred year where coverage was retroactively obtained as a result of coverage arising under an agreement relating to employment in State or local work.

Press Release No. 23

JANUARY 22, 1964 (Afternoon).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Amendment No. 274. Television tuners.*—The committee considered but rejected this amendment which represents the context of S. 1151. This amendment would treat television tuners as taxable articles in the period from November 1, 1950, to August 31, 1955, so that tubes purchased tax free for use in the tuner would not become taxable.

2. *Amendment No. 330. Small business corporations.*—The committee considered and adopted this amendment which would permit a corporation which has elected to have its income taxed directly to its shareholders to distribute certain amounts received from the sale of property under a contract entered into within its taxable year to its shareholders by the 15th day of the 3d month following the close of the taxable year and to treat such amounts as if distributed on the last day of the taxable year.

3. *Amendment No. 319. Depreciation guidelines.*—The committee considered but rejected this amendment. This amendment directs the Secretary of the Treasury to prescribe useful lives for property no longer than those prescribed by revenue ruling 62-21. It also deletes the reserve ratio test included in that ruling, which in effect, in general, requires the taxpayer to replace property at the rate at which he depreciates it.

4. *Section 203. Group-term life insurance.*—The committee reconsidered its previous actions in the case of this provision in two respects.

First, it considered but rejected a motion to substitute the determination of premium cost on the basis of a single average premium rather than on the basis of the taxable premium rates now in the bill which vary by 5-year brackets with age. Second, the committee considered and adopted an amendment raising from \$50,000 to \$70,000 the minimum group-term life insurance level which is to be subject to tax.

5. *Intercorporate dividends received deduction.*—The committee considered but rejected an amendment which would have increased from 85 to 90 percent the portion of intercorporate dividends for which a deduction would be allowed in those cases where there is 95 percent common ownership (rather than 80 percent).

6. *Sections 111 and 301. Reduction of tax on individuals.*—The committee considered and adopted the individual rate schedules provided in the House bill. These rates vary from 16 to 73.5 percent for 1964, and from 14 to 70 percent for 1965 and subsequent years.

7. *Section 221. Averaging.*—The committee considered but rejected an amendment to strike the averaging provision from the House bill.

8. *Section 302. Withholding tax rate.*—The committee approved a 14-percent withholding rate for 1964 and 1965. The 14-percent rate for 1964 is to be effective with respect to amounts paid more than 1 week after the date of the enactment of the bill. The House bill would have provided a 15-percent withholding rate for 1964 and a 14-percent withholding rate for 1965. The committee also adopted the withholding rate schedules corresponding to the 14-percent rate.

9. *Excess foreign tax credits attributable to percentage depletion.*—The committee adopted an amendment which would permit excess foreign tax credits to be applied against nonmineral income to the extent this income is from a business which is related to mineral production. This modifies the amendment adopted on January 16 (see press release No. 14, item 2, paragraph 2) when the committee adopted a provision to the effect that if a foreign tax on foreign mineral production exceeds the U.S. tax which would be imposed on the same production and this excess is attributable to the allowance of percentage depletion, then this excess foreign tax will not be allowed as a foreign tax credit against U.S. tax otherwise due on foreign nonmineral production income.

Press Release No. 24

JANUARY 23, 1964 (Morning).

TENTATIVE DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 203. Group-term life insurance.*—An amendment was considered but rejected which would limit the exclusion for group-term life insurance to plans which were nondiscriminatory. To be nondiscriminatory, a plan must cover all employees who have been employed more than 2 years, whose customary employment is more than 20 hours a week, and who are customarily employed for more than 5 months a year. In addition, the insurance provided with respect to any one

employee must not be more than 20 times the insurance provided with respect to any other employee.

2. *Section 214. Employee stock options and purchase plans.*—The committee considered but rejected an amendment to deny any special qualified stock option treatment for the future. Under this amendment, however, employee stock purchase plans would have been continued as provided in the bill.

3. *Increase in personal exemptions.*—The committee considered but rejected a motion to increase from \$600 to \$1,000 the per capita exemptions under present law. This was offered as a substitute for the individual income tax rate reductions provided in the bill but the minimum standard deduction provided in the bill would have been retained.

4. *Exclusions for income earned abroad.*—The committee considered but rejected an amendment which would have reduced from the present \$35,000 or \$20,000 to \$6,000 the exclusion for income earned abroad by those who are bona fide residents of a foreign country or who are in foreign countries 17 out of 18 months.

5. *Interest equalization tax.*—The committee considered but rejected an amendment which would have adopted the text of H.R. 8000 as reported by the House Committee on Ways and Means except that the effective date of the tax would be January 1, 1964, instead of July 18, 1963.

6. *Retail excise tax on luggage, etc.*—The committee considered and adopted an amendment to repeal the 10-percent retail excise tax on luggage, ladies handbags, wallets, etc.

7. *Retail excise tax on jewelry and related items.*—The committee considered and adopted an amendment providing an exemption from the 10-percent excise tax on jewelry, watches, silver-plated flatware, and similar items with respect to the first \$100 of retail price.

8. *Retail excise tax on toilet preparations.*—The committee considered and adopted an amendment repealing the 10-percent excise tax on toilet preparations (cosmetics and similar items).

9. *Retail excise tax on furs.*—The committee considered and adopted an amendment exempting from the 10-percent retail excise tax on furs, the first \$100 of the cost of any fur.

10. *Manufacturer's excise tax on pens and mechanical pencils.*—The committee considered and adopted an amendment repealing the 10-percent manufacturer's excise tax on pens and mechanical pencils.

11. *Manufacturer's excise tax on musical instruments.*—The committee considered but rejected an amendment which would have repealed the 10-percent manufacturer's excise tax on all musical instruments except pianos and organs. Following this, the committee considered and adopted an amendment (No. 276, previously considered on December 16, see press release No. 3, item 7) which provides an exemption from this tax for instruments purchased for use by a student in an orchestra, band, etc., sponsored by an educational organization.

12. *Amendment No. 228. Simplified tax method.*—The committee reconsidered its action of December 13 (see press release No. 2) relating to the adoption of the simplified tax method alternative tax rate and rejected this amendment. This amendment would permit taxpayers to elect to avoid for 5-year periods the graduated tax rates if they forgo

certain credits, exclusions, and deductions. The rates under the amendment would have been 40 percent on the first \$50,000 of simplified taxable income for single persons (\$100,000 for joint returns) and 50 percent of income in excess of such a level.

Press Release No. 25

JANUARY 23, 1964 (AFTERNOON).

FINAL DECISIONS BY SENATE COMMITTEE ON FINANCE ON REVENUE ACT (H.R. 8363)

1. *Section 202(a). Adjustment to basis in the case of the investment credit.*—The committee considered but rejected an amendment to restore the provision of present law which requires a downward adjustment in basis with respect to property for which an investment credit is claimed.

2. *Amendment No. 377. Head-of-household treatment.*—The committee considered but rejected this amendment which would have made head-of-household treatment available to all persons over age 35 who were not already receiving such treatment or were not already receiving full income splitting.

3. *Excise taxes.*—The committee reconsidered its action with respect to all excise tax amendments and voted to remove all previously agreed to excise provisions from the bill. (See press release No. 18, item 5, and press release No. 24, items 6, 7, 8, 9, 10, and 11.)

4. *Amendment No. 381. Retirement income credit.*—The committee considered and adopted this amendment limiting the credit in the case of the wife, however, to those age 65 or over. This amendment, in general, provides a maximum amount of income on which a retirement income credit may be based of \$762 for a wife who has no prior earnings experience (this multiplied by 15 percent indicates the credit which would be available in such cases under the bill.)

5. *Flood losses.*—The committee considered but rejected an amendment which would provide a tax deduction for amounts paid with respect to flood loss insurance.

6. *Automotive excise tax.*—The committee considered but rejected an amendment which would exempt “camper coaches” and “slide-in cabins” from the 10-percent automotive manufacturer’s excise tax.

7. *Section 216. Personal holding companies.*—The committee considered but rejected an amendment to the personal holding company provision which would have provided that in the case of those who did their own wildcatting, that production derived therefrom for purposes of determining the amount of active income in applying the 60-percent personal holding company test is not to be reduced for depletion, taxes, and interest.

With the amendments reported here and previously reported, the committee ordered the bill reported by a vote of 12 to 5. The exact day for reporting of the bill cannot now be determined but it is estimated that the staff will require something like 10 days to prepare the committee amendments and report.

SECTION 15
BILL AS REPORTED BY THE SENATE COMMITTEE
ON FINANCE

2105

H. R. 8363

[Report No. 830]

IN THE SENATE OF THE UNITED STATES

SEPTEMBER 30, 1963

Read twice and referred to the Committee on Finance

JANUARY 28, 1964

Reported by Mr. LONG of LOUISIANA, with amendments

[Omit the part struck through or enclosed in boldface brackets and insert the part printed in italic]

AN ACT

To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DECLARATION BY CONGRESS.**

4 It is the sense of Congress that the tax reduction pro-
5 vided by this Act through stimulation of the economy, will,
6 after a brief transitional period, raise (rather than lower)
7 revenues and that such revenue increases should first be
8 used to eliminate the deficits in the administrative budgets

II

1 and then to reduce the public debt. To further the objective
 2 of obtaining balanced budgets in the near future, Congress
 3 by this action, recognizes the importance of taking all reason-
 4 able means to restrain Government spending and urges the
 5 President to declare his accord with this objective.

6 **SEC. 2 SECTION 1. SHORT TITLE, ETC.**

7 (a) **SHORT TITLE.**—This Act may be cited as the
 8 “Revenue Act of ~~1963~~ 1964”.

9 (b) **AMENDMENT OF 1954 CODE.**—Except as otherwise
 10 expressly provided, whenever in this Act an amendment or
 11 repeal is expressed in terms of an amendment to, or repeal
 12 of, a section or other provision, the reference shall be con-
 13 sidered to be made to a section or other provision of the
 14 Internal Revenue Code of 1954.

15 **Title I—Reduction Of Income Tax Rates**
 16 **And Related Amendments**

17 **PART I—INDIVIDUALS**

18 **SEC. 111. REDUCTION OF TAX ON INDIVIDUALS.**

19 (a) **INDIVIDUALS OTHER THAN HEADS OF HOUSE-**
 20 **HOLDS.**—Subsection (a) of section 1 (relating to rates of tax
 21 on individuals other than heads of households) is amended
 22 to read as follows:

23 “(a) **RATES OF TAX ON INDIVIDUALS.**—

24 “(1) **TAXABLE YEARS BEGINNING IN 1964.**—In
 25 the case of a taxable year beginning on or after January

1 1, 1964, and before January 1, 1965, there is hereby im-
 2 posed on the taxable income of every individual (other
 3 than a head of a household to whom subsection (b) ap-
 4 plies) a tax determined in accordance with the follow-
 5 ing table:

"If the taxable income is:**The tax is:**

Not over \$500-----	16% of the taxable income.
Over \$500 but not over \$1,000-----	\$80, plus 16.5% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$162.50, plus 17.5% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$250, plus 18% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$340, plus 20% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$740, plus 23.5% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,210, plus 27% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,750, plus 30.5% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,360, plus 34% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$3,040, plus 37.5% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,790, plus 41% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,610, plus 44.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,500, plus 47.5% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,450, plus 50.5% of excess over \$20,000.
Over \$22,000 but not over \$26,000-----	\$7,460, plus 53.5% of excess over \$22,000.
Over \$26,000 but not over \$32,000-----	\$9,600, plus 56% of excess over \$26,000.
Over \$32,000 but not over \$38,000-----	\$12,960, plus 58.5% of excess over \$32,000.
Over \$38,000 but not over \$44,000-----	\$16,470, plus 61% of excess over \$38,000.
Over \$44,000 but not over \$50,000-----	\$20,130, plus 63.5% of excess over \$44,000.
Over \$50,000 but not over \$60,000-----	\$23,940, plus 66% of excess over \$50,000.
Over \$60,000 but not over \$70,000-----	\$30,540, plus 68.5% of excess over \$60,000.
Over \$70,000 but not over \$80,000-----	\$37,390, plus 71% of excess over \$70,000.

"If the taxable income is:**The tax is:**

Over \$80,000 but not over \$90,000----	\$44,490, plus 73.5% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$51,840, plus 75% of excess over \$90,000.
Over \$100,000 but not over \$200,000--	\$59,340, plus 76.5% of excess over \$100,000.
Over \$200,000-----	\$135,840, plus 77% of excess over \$200,000.

1 “(2) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In the case of a taxable year beginning
3 after December 31, 1964, there is hereby imposed on
4 the taxable income of every individual (other than a
5 head of a household to whom subsection (b) applies) a
6 tax determined in accordance with the following table:

"If the taxable income is:**The tax is:**

Not over \$500-----	14% of the taxable income.
Over \$500 but not over \$1,000-----	\$70, plus 15% of excess over \$500.
Over \$1,000 but not over \$1,500-----	\$145, plus 16% of excess over \$1,000.
Over \$1,500 but not over \$2,000-----	\$225, plus 17% of excess over \$1,500.
Over \$2,000 but not over \$4,000-----	\$310, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$690, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,130, plus 25% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,630, plus 28% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,190, plus 32% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$2,830, plus 36% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,550, plus 39% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$4,330, plus 42% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$5,170, plus 45% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$6,070, plus 48% of excess over \$20,000.
Over \$22,000 but not over \$26,000-----	\$7,030, plus 50% of excess over \$22,000.
Over \$26,000 but not over \$32,000-----	\$9,030, plus 53% of excess over \$26,000.
Over \$32,000 but not over \$38,000-----	\$12,210, plus 55% of excess over \$32,000.

"If the taxable income is:**The tax is:**

Over \$38,000 but not over \$44,000----	\$15,510, plus 58% of excess over \$38,000.
Over \$44,000 but not over \$50,000----	\$18,990, plus 60% of excess over \$44,000.
Over \$50,000 but not over \$60,000----	\$22,590, plus 62% of excess over \$50,000.
Over \$60,000 but not over \$70,000----	\$28,790, plus 64% of excess over \$60,000.
Over \$70,000 but not over \$80,000----	\$35,190, plus 66% of excess over \$70,000.
Over \$80,000 but not over \$90,000----	\$41,790, plus 68% of excess over \$80,000.
Over \$90,000 but not over \$100,000---	\$48,590, plus 69% of excess over \$90,000.
Over \$100,000-----	\$55,490, plus 70% of excess over \$100,000."

1 (b) HEADS OF HOUSEHOLDS.—Paragraph (1) of sec-
2 tion 1 (b) (relating to rates of tax on heads of households)
3 is amended to read as follows:

4 " (1) RATES OF TAX.—

5 " (A) TAXABLE YEARS BEGINNING IN 1964.—

6 In the case of a taxable year beginning on or after
7 January 1, 1964, and before January 1, 1965,
8 there is hereby imposed on the taxable income of
9 every individual who is the head of a household a
10 tax determined in accordance with the following
11 table:

"If the taxable income is:**The tax is:**

Not over \$1,000-----	16% of the taxable income.
Over \$1,000 but not over \$2,000----	\$160, plus 17.5% of excess over \$1,000.
Over \$2,000 but not over \$4,000----	\$335, plus 19% of excess over \$2,000.
Over \$4,000 but not over \$6,000----	\$715, plus 22% of excess over \$4,000.
Over \$6,000 but not over \$8,000----	\$1,155, plus 23% of excess over \$6,000.
Over \$8,000 but not over \$10,000----	\$1,615, plus 27% of excess over \$8,000.
Over \$10,000 but not over \$12,000----	\$2,155, plus 29% of excess over \$10,000.

"If the taxable income is:**The tax is:**

Over \$12,000 but not over \$14,000----	\$2,735, plus 32% of excess over \$12,000.
Over \$14,000 but not over \$16,000----	\$3,375, plus 34% of excess over \$14,000.
Over \$16,000 but not over \$18,000----	\$4,055, plus 37.5% of excess over \$16,000.
Over \$18,000 but not over \$20,000----	\$4,805, plus 39% of excess over \$18,000.
Over \$20,000 but not over \$22,000----	\$5,585, plus 42.5% of excess over \$20,000.
Over \$22,000 but not over \$24,000----	\$6,435, plus 43.5% of excess over \$22,000.
Over \$24,000 but not over \$26,000----	\$7,305, plus 45.5% of excess over \$24,000.
Over \$26,000 but not over \$28,000----	\$8,215, plus 47% of excess over \$26,000.
Over \$28,000 but not over \$32,000----	\$9,155, plus 48.5% of excess over \$28,000.
Over \$32,000 but not over \$36,000----	\$11,095, plus 51.5% of excess over \$32,000.
Over \$36,000 but not over \$38,000----	\$13,155, plus 53% of excess over \$36,000.
Over \$38,000 but not over \$40,000----	\$14,215, plus 54% of excess over \$38,000.
Over \$40,000 but not over \$44,000----	\$15,295, plus 56% of excess over \$40,000.
Over \$44,000 but not over \$50,000----	\$17,535, plus 58.5% of excess over \$44,000.
Over \$50,000 but not over \$52,000----	\$21,045, plus 59.5% of excess over \$50,000.
Over \$52,000 but not over \$60,000----	\$22,235, plus 61% of excess over \$52,000.
Over \$60,000 but not over \$64,000----	\$27,115, plus 62% of excess over \$60,000.
Over \$64,000 but not over \$70,000----	\$29,595, plus 63.5% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$33,405, plus 65% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$37,305, plus 66% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$39,945, plus 67% of excess over \$80,000.
Over \$88,000 but not over \$90,000----	\$45,305, plus 69% of excess over \$88,000.
Over \$90,000 but not over \$100,000---	\$46,685, plus 69.5% of excess over \$90,000.
Over \$100,000 but not over \$120,000--	\$53,635, plus 71% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$67,835, plus 72.5% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$82,335, plus 74% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$97,135, plus 75% of excess over \$160,000.
Over \$180,000 but not over \$200,000--	\$112,135, plus 75.5% of excess over \$180,000.
Over \$200,000-----	\$127,235, plus 77% of excess over \$200,000.

1 “(B) TAXABLE YEARS BEGINNING AFTER
 2 DECEMBER 31, 1964.—In the case of a taxable year
 3 beginning after December 31, 1964, there is hereby
 4 imposed on the taxable income of every individual
 5 who is the head of a household a tax determined in
 6 accordance with the following table:

“If the taxable income is:	The tax is:
Not over \$1,000-----	14% of the taxable income.
Over \$1,000 but not over \$2,000-----	\$140, plus 16% of excess over \$1,000.
Over \$2,000 but not over \$4,000-----	\$300, plus 18% of excess over \$2,000.
Over \$4,000 but not over \$6,000-----	\$660, plus 20% of excess over \$4,000.
Over \$6,000 but not over \$8,000-----	\$1,060, plus 22% of excess over \$6,000.
Over \$8,000 but not over \$10,000-----	\$1,500, plus 25% of excess over \$8,000.
Over \$10,000 but not over \$12,000-----	\$2,000, plus 27% of excess over \$10,000.
Over \$12,000 but not over \$14,000-----	\$2,540, plus 31% of excess over \$12,000.
Over \$14,000 but not over \$16,000-----	\$3,160, plus 32% of excess over \$14,000.
Over \$16,000 but not over \$18,000-----	\$3,800, plus 35% of excess over \$16,000.
Over \$18,000 but not over \$20,000-----	\$4,500, plus 36% of excess over \$18,000.
Over \$20,000 but not over \$22,000-----	\$5,220, plus 40% of excess over \$20,000.
Over \$22,000 but not over \$24,000-----	\$6,020, plus 41% of excess over \$22,000.
Over \$24,000 but not over \$26,000-----	\$6,840, plus 43% of excess over \$24,000.
Over \$26,000 but not over \$28,000-----	\$7,700, plus 45% of excess over \$26,000.
Over \$28,000 but not over \$32,000-----	\$8,600, plus 46% of excess over \$28,000.
Over \$32,000 but not over \$36,000-----	\$10,440, plus 48% of excess over \$32,000.
Over \$36,000 but not over \$38,000-----	\$12,360, plus 50% of excess over \$36,000.
Over \$38,000 but not over \$40,000-----	\$13,360, plus 52% of excess over \$38,000.
Over \$40,000 but not over \$44,000-----	\$14,400, plus 53% of excess over \$40,000.
Over \$44,000 but not over \$50,000-----	\$16,520, plus 55% of excess over \$44,000.
Over \$50,000 but not over \$52,000-----	\$19,820, plus 56% of excess over \$50,000.

"If the taxable income is:**The tax is:**

Over \$52,000 but not over \$64,000----	\$20,940, plus 58% of excess over \$52,000.
Over \$64,000 but not over \$70,000----	\$27,900, plus 59% of excess over \$64,000.
Over \$70,000 but not over \$76,000----	\$31,440, plus 61% of excess over \$70,000.
Over \$76,000 but not over \$80,000----	\$35,100, plus 62% of excess over \$76,000.
Over \$80,000 but not over \$88,000----	\$37,580, plus 63% of excess over \$80,000.
Over \$88,000 but not over \$100,000---	\$42,620, plus 64% of excess over \$88,000.
Over \$100,000 but not over \$120,000--	\$50,300, plus 66% of excess over \$100,000.
Over \$120,000 but not over \$140,000--	\$63,500, plus 67% of excess over \$120,000.
Over \$140,000 but not over \$160,000--	\$76,900, plus 68% of excess over \$140,000.
Over \$160,000 but not over \$180,000--	\$90,500, plus 69% of excess over \$160,000.
Over \$180,000-----	\$104,300, plus 70% of excess over \$180,000."

1 **SEC. 112. MINIMUM STANDARD DEDUCTION.**

2 (a) GENERAL RULE.—Section 141 (relating to standard
3 deduction) is amended to read as follows:

4 **"SEC. 141. STANDARD DEDUCTION.**

5 "(a) STANDARD DEDUCTION.—Except as otherwise
6 provided in this section, the standard deduction referred to
7 in this title is the larger of the 10-percent standard deduction
8 or the minimum standard deduction. The standard deduc-
9 tion shall not exceed \$1,000, except that in the case of a
10 separate return by a married individual the standard deduc-
11 tion shall not exceed \$500.

12 "(b) TEN-PERCENT STANDARD DEDUCTION.—The 10-
13 percent standard deduction is an amount equal to 10 percent
14 of the adjusted gross income.

1 “(c) MINIMUM STANDARD DEDUCTION.—The mini-
2 mum standard deduction is an amount equal to the sum of—

3 “(1) \$100, multiplied by the number of exemptions
4 allowed for the taxable year as a deduction under section
5 151, plus

6 “(2) (A) \$200, in the case of a joint return of a
7 husband and wife under section 6013,

8 “(B) \$200, in the case of a return of an individual
9 who is not married, or

10 “(C) \$100, in the case of a separate return by a
11 married individual.

12 “(d) MARRIED INDIVIDUALS FILING SEPARATE RE-
13 TURNS.—Notwithstanding subsection (a) —

14 “(1) The minimum standard deduction shall not
15 apply in the case of a separate return by a married in-
16 dividual if the tax of the other spouse is determined with
17 regard to the 10-percent standard deduction.

18 “(2) A married individual filing a separate return
19 may, if the minimum standard deduction is less than the
20 10-percent standard deduction, and if the minimum
21 standard deduction of his spouse is greater than the
22 10-percent standard deduction of such spouse, elect
23 (under regulations prescribed by the Secretary or his
24 delegate) to have his tax determined with regard to
25 the minimum standard deduction in lieu of being de-

1 terminated with regard to the 10-percent standard de-
2 duction.”

3 (b) AMENDMENT OF SECTION 2.—The second sentence
4 of section 2 (a) (relating to tax in case of joint return or re-
5 turn of surviving spouse) is amended by striking out “and
6 section 3” and inserting in lieu thereof “, section 3, and sec-
7 tion 141”.

8 (c) AMENDMENTS OF SECTION 144.—

9 (1) The first sentence of section 144 (b) (relating
10 to change of election of standard deduction) is amended
11 to read as follows: “Under regulations prescribed by
12 the Secretary or his delegate, a change of election
13 with respect to the standard deduction for any taxable
14 year may be made after the filing of the return for such
15 year.”

16 (2) Section 144 is amended by adding at the end
17 thereof the following new subsection:

18 “(c) CHANGE OF ELECTION DEFINED.—For purposes
19 of this title, the term ‘change of election with respect to the
20 standard deduction’ means—

21 “(1) a change of an election to take (or not to
22 take) the standard deduction;

23 “(2) a change of an election to pay (or not to
24 pay) the tax under section 3; or

1 “(3) a change of an election under section
2 141 (d) (2).”

3 (d) CONFORMING AMENDMENTS.—

4 (1) Subparagraph (A) of section 6212 (c) (2)
5 (relating to cross references) is amended by striking out
6 “to take” and inserting in lieu thereof “with respect to
7 the”.

8 (2) Paragraph (3) of section 6504 (relating to
9 cross references) is amended by striking out “to take”
10 and inserting in lieu thereof “with respect to the”.

11 SEC. 113. RELATED AMENDMENTS.

12 (a) RETIREMENT INCOME CREDIT.—Section 37 (a)
13 (relating to credit against tax for retirement income) is
14 amended by striking out “an amount equal to the amount
15 received by such individual as retirement income (as defined
16 in subsection (c) and as limited by subsection (d)) , multi-
17 plied by the rate provided in section 1 for the first \$2,000
18 of taxable income;” and inserting in lieu thereof “an amount
19 equal to 15 percent of the amount received by such individual
20 as retirement income (as defined in subsection (c) and as
21 limited by subsection (d)) ;”.

22 (b) TAX ON NONRESIDENT ALIEN INDIVIDUALS.—
23 Section 871 (relating to tax on nonresident alien individuals)
24 is amended—

25 (1) By striking out “is more than \$15,400, except

1 that—" in subsection (b) and inserting in lieu thereof
 2 "is more than \$19,000 in the case of a taxable year
 3 beginning in 1964 or more than \$21,200 in the case of
 4 a taxable year beginning after 1964, except that—".

5 (2) By striking out the heading to subsection (a)
 6 and inserting in lieu thereof the following:

7 "(a) NO UNITED STATES BUSINESS—30 PERCENT
 8 TAX.—".

9 (3) By striking out the heading to subsection (b)
 10 and inserting in lieu thereof the following:

11 "(b) NO UNITED STATES BUSINESS—REGULAR
 12 TAX.—".

13 SEC. 114. CROSS REFERENCES TO TAX TABLES, ETC.

 (1) For optional tax if adjusted gross income is less
 than \$5,000, see section 301 of this Act.

 (2) For income tax collected at source, see section 302
 of this Act.

14 PART II—CORPORATIONS

15 SEC. 121. REDUCTION OF TAX ON CORPORATIONS.

16 Section 11 (relating to tax on corporations) is amended
 17 to read as follows:

18 "SEC. 11. TAX IMPOSED.

19 "(a) CORPORATIONS IN GENERAL.—A tax is hereby
 20 imposed for each taxable year on the taxable income of
 21 every corporation. The tax shall consist of a normal tax

1 computed under subsection (b) and a surtax computed under
2 subsection (c).

3 “(b) NORMAL TAX.—The normal tax is equal to the
4 following percentage of the taxable income:

5 “(1) 30 percent, in the case of a taxable year
6 beginning before January 1, 1964, and

7 “(2) 22 percent, in the case of a taxable year
8 beginning after December 31, 1963.

9 “(c) SURTAX.—The surtax is equal to the following
10 percentage of the amount by which the taxable income
11 exceeds the surtax exemption for the taxable year:

12 “(1) 22 percent, in the case of a taxable year
13 beginning before January 1, 1964,

14 “(2) 28 percent, in the case of a taxable year
15 beginning after December 31, 1963, and before Jan-
16 uary 1, 1965, and

17 “(3) 26 percent, in the case of a taxable year
18 beginning after December 31, 1964.

19 “(d) SURTAX EXEMPTION.—For purposes of this sub-
20 title, the surtax exemption for any taxable year is \$25,000
21 ~~or the amount determined under section 1561 (relating to~~
22 ~~surtax exemptions in case of certain controlled corporations)~~
23 , except that, with respect to a corporation to which section

1 *1561 (relating to surtax exemptions in case of certain con-*
 2 *trolled corporations) applies for the taxable year, the surtax*
 3 *exemption for the taxable year is the amount determined under*
 4 *such section.*

5 “(e) EXCEPTIONS.—Subsection (a) shall not apply to
 6 a corporation subject to a tax imposed by—

7 “(1) section 594 (relating to mutual savings banks
 8 conducting life insurance business),

9 “(2) subchapter L (sec. 801 and following, relat-
 10 ing to insurance companies),

11 “(3) subchapter M (sec. 851 and following, relat-
 12 ing to regulated investment companies and real estate
 13 investment trusts), or

14 “(4) section 881 (a) (relating to foreign corpora-
 15 tions not engaged in business in United States).”

16 **SEC. 122. CURRENT TAX PAYMENTS BY CORPORATIONS.**

17 (a) **INSTALLMENT PAYMENTS OF ESTIMATED INCOME**
 18 **TAX BY CORPORATIONS.**—Section 6154 (relating to install-
 19 ment payments of estimated income tax by corporations)
 20 is amended to read as follows:

1 "SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED IN-
 2 COME TAX BY CORPORATIONS.

3 "(a) AMOUNT AND TIME FOR PAYMENT OF EACH
 4 INSTALLMENT.—The amount of estimated tax (as defined
 5 in section 6016 (b)) with respect to which a declaration is
 6 required under section 6016 shall be paid as follows:

7 "(1) PAYMENT IN 4 INSTALLMENTS.—If the
 8 declaration is filed on or before the 15th day of the
 9 4th month of the taxable year, the estimated tax shall
 10 be paid in 4 installments. The amount and time for
 11 payment of each installment shall be determined in
 12 accordance with the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
1964-----	1	1	25	25
1965-----	4	4	25	25
1966-----	9	9	25	25
1967-----	14	14	25	25
1968-----	19	19	25	25
1969-----	22	22	25	25
1970 or any subsequent year-----	25	25	25	25

1 “(2) PAYMENT IN 3 INSTALLMENTS.—If the dec-
2 laration is filed after the 15th day of the 4th month and
3 not after the 15th day of the 6th month of the taxable
4 year, and is not required by section 6074 (a) to be
5 filed on or before the 15th day of such 4th month, the
6 estimated tax shall be paid in 3 installments. The
7 amount and time for payment of each installment shall
8 be determined in accordance with the following table:

“If the taxable year begins in—	The following percentages of the esti- mated tax shall be paid on the 15th day of the—		
	6th month	9th month	12th month
1964-----	1½	25½	25½
1965-----	5½	26½	26½
1966-----	12	28	28
1967-----	18½	29½	29½
1968-----	25½	31½	31½
1969-----	29½	32½	32½
1970 or any subsequent year-----	33½	33½	33½

9 “(3) PAYMENT IN 2 INSTALLMENTS.—If the
10 declaration of estimated tax is filed after the 15th day
11 of the 6th month and not after the 15th day of the 9th
12 month of the taxable year, and is not required by section
13 6074 (a) to be filed on or before the 15th day of such
14 6th month, the estimated tax shall be paid in 2 install-
15 ments. The amount and time for payment of each

1 installment shall be determined in accordance with the
 2 following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the—	
	9th month	12th month
1964-----	26	26
1965-----	29	29
1966-----	34	34
1967-----	39	39
1968-----	44	44
1969-----	47	47
1970 or any subsequent year-----	50	50

3 “(4) PAYMENT IN 1 INSTALLMENT.—If the
 4 declaration of estimated tax is filed after the 15th day
 5 of the 9th month of the taxable year, and is not required
 6 by section 6074 (a) to be filed on or before the 15th
 7 day of such 9th month, the estimated tax shall be paid
 8 in 1 installment. The amount and time for payment of
 9 the installment shall be determined in accordance with
 10 the following table:

"If the taxable year begins in—	The following percentages of the estimated tax shall be paid on the 15th day of the 12th month
1964-----	52
1965-----	58
1966-----	68
1967-----	78
1968-----	88
1969-----	94
1970 or any subsequent year-----	100

1 “(5) **LATE FILING.**—If the declaration is filed after
2 the time prescribed in section 6074 (a) (determined
3 without regard to any extension of time for filing the
4 declaration under section 6081), paragraphs (2), (3),
5 and (4) of this subsection shall not apply, and there
6 shall be paid at the time of such filing all installments
7 of estimated tax which would have been payable on or
8 before such time if the declaration had been filed within
9 the time prescribed in section 6074 (a), and the remain-
10 ing installments shall be paid at the times at which,
11 and in the amounts in which, they would have been pay-
12 able if the declaration had been so filed.

13 “(b) **AMENDMENT OF DECLARATION.**—If any amend-
14 ment of a declaration is filed, the amount of each remaining
15 installment (if any) shall be the amount which would have
16 been payable if the new estimate had been made when the
17 first estimate for the taxable year was made, increased or de-
18 creased (as the case may be), by the amount computed by
19 dividing—

1 “(1) the difference between (A) the amount of
 2 estimated tax required to be paid before the date on
 3 which the amendment is made, and (B) the amount of
 4 estimated tax which would have been required to be paid
 5 before such date if the new estimate had been made
 6 when the first estimate was made, by

7 “(2) the number of installments remaining to be
 8 paid on or after the date on which the amendment is
 9 made.

10 “(c) APPLICATION TO SHORT TAXABLE YEAR.—The
 11 application of this section to taxable years of less than 12
 12 months shall be in accordance with regulations prescribed by
 13 the Secretary or his delegate.

14 “(d) INSTALLMENTS PAID IN ADVANCE.—At the elec-
 15 tion of the corporation, any installment of the estimated tax
 16 may be paid before the date prescribed for its payment.”

17 (b) TIME FOR FILING DECLARATIONS OF ESTIMATED
 18 INCOME TAX BY CORPORATIONS.—Section 6074 (relating

1 to time for filing declarations of estimated income tax by cor-
 2 porations) is amended to read as follows:

3 **"SEC. 6074. TIME FOR FILING DECLARATIONS OF ESTI-**
 4 **MATED INCOME TAX BY CORPORATIONS.**

5 **"(a) GENERAL RULE.**—The declaration of estimated tax
 6 required of corporations by section 6016 shall be filed as
 7 follows:

"If the requirements of section 6016 are first met—	The declaration shall be filed on or before—
before the 1st day of the 4th month of the taxable year-----	the 15th day of the 4th month of the taxable year
after the last day of the 3d month and before the 1st day of the 6th month of the taxable year-----	the 15th day of the 6th month of the taxable year
after the last day of the 5th month and before the 1st day of the 9th month of the taxable year-----	the 15th day of the 9th month of the taxable year
after the last day of the 8th month and before the 1st day of the 12th month of the taxable year-----	the 15th day of the 12th month of the taxable year

8 **"(b) AMENDMENT.**—An amendment of a declaration
 9 may be filed in any interval between installment dates
 10 prescribed for the taxable year, but only one amendment
 11 may be filed in each such interval.

12 **"(c) SHORT TAXABLE YEAR.**—The application of this
 13 section to taxable years of less than 12 months shall be in
 14 accordance with regulations prescribed by the Secretary or
 15 his delegate."

1 (c) FAILURE BY CORPORATIONS TO PAY ESTIMATED
2 INCOME TAX.—

3 (1) The last sentence of section 6655 (c) (2) (re-
4 lating to period of underpayment) is amended to read
5 as follows: “For purposes of this paragraph, a payment
6 of estimated tax on any installment date shall be con-
7 sidered a payment of any previous underpayment only to
8 the extent such payment exceeds the amount of the in-
9 stallment determined under subsection (b) (1) for such
10 installment date.”

11 (2) Paragraph (3) of section 6655 (d) (relating
12 to exception) is amended to read as follows:

13 “(3) (A) An amount equal to 70 percent of the
14 tax for the taxable year computed by placing on an
15 annualized basis the taxable income:

16 “(i) for the first 3 months of the taxable year,
17 in the case of the installment required to be paid in
18 the 4th month,

19 “(ii) for the first 3 months or for the first 5
20 months of the taxable year, in the case of the in-
21 stallment required to be paid in the 6th month,

22 “(iii) for the first 6 months or for the first 8
23 months of the taxable year in the case of the install-
24 ment required to be paid in the 9th month, and

1 “(iv) for the first 9 months or for the first 11
2 months of the taxable year, in the case of the in-
3 stallment required to be paid in the 12th month of
4 the taxable year.

5 “(B) For purposes of this paragraph, the taxable
6 income shall be placed on an annualized basis by—

7 “(i) multiplying by 12 the taxable income re-
8 ferred to in subparagraph (A), and

9 “(ii) dividing the resulting amount by the num-
10 ber of months in the taxable year (3, 5, 6, 8, 9, or
11 11, as the case may be) referred to in subparagraph
12 (A).”

13 (d) TECHNICAL AMENDMENT.—Section 6016(f) (re-
14 lating to declarations of estimated income tax by corpora-
15 tions) is amended to read as follows:

16 “(f) CROSS REFERENCE.—

 “For provisions relating to the number of amendments
 which may be filed, see section 6074(b).”

17 SEC. 123. RELATED AMENDMENTS.

18 (a) TAX ON MUTUAL INSURANCE COMPANIES
19 (OTHER THAN LIFE, ETC.)—

20 (1) Subsection (a) of section 821 (relating to
21 imposition of tax) is amended to read as follows:

22 “(a) IMPOSITION OF TAX.—A tax is hereby imposed
23 for each taxable year beginning after December 31, 1963,

1 on the mutual insurance company taxable income of every
 2 mutual insurance company (other than a life insurance com-
 3 pany and other than a fire, flood, or marine insurance com-
 4 pany subject to the tax imposed by section 831). Such
 5 tax shall consist of—

6 “(1) NORMAL TAX.—A normal tax of 22 percent
 7 of the mutual insurance company taxable income, or 44
 8 percent of the amount by which such taxable income
 9 exceeds \$6,000, whichever is the lesser; plus

10 “(2) SURTAX.—A surtax on the mutual insurance
 11 company taxable income computed as provided in sec-
 12 tion 11 (c) as though the mutual insurance company
 13 taxable income were the taxable income referred to in
 14 section 11 (c).”

15 (2) Paragraph (1) of section 821 (c) (relating to
 16 alternative tax for certain small companies) is amended
 17 to read as follows:

18 “(1) IMPOSITION OF TAX.—In the case of taxable
 19 years beginning after December 31, 1963, there is here-
 20 by imposed for each taxable year on the income of each
 21 mutual insurance company to which this subsection
 22 applies a tax (which shall be in lieu of the tax im-
 23 posed by subsection (a)) computed as follows:

24 “(A) NORMAL TAX.—A normal tax of 22 per-
 25 cent of the taxable investment income, or 44 per-

1 cent of the amount by which such taxable income
2 exceeds \$3,000, whichever is the lesser; plus

3 “(B) SURTAX.—A surtax on the taxable in-
4 vestment income computed as provided in section
5 11 (c) as though the taxable investment income
6 were the taxable income referred to in section
7 11 (c).”

8 (b) RECEIPT OF MINIMUM DISTRIBUTIONS BY DOMES-
9 TIC CORPORATIONS.—Subsection (b) of section 963 (relat-
10 ing to receipt of minimum distributions by domestic cor-
11 porations) is amended to read as follows:

12 “(b) MINIMUM DISTRIBUTION.—For purposes of this
13 section, a minimum distribution with respect to the earnings
14 and profits for the taxable year of any controlled foreign cor-
15 poration or corporations shall, in the case of any United
16 States shareholder, be its pro rata share of an amount deter-
17 mined in accordance with whichever of the following tables
18 applies to the taxable year:

19 “(1) TAXABLE YEARS BEGINNING IN 1963.—

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10-----	90
10 or over but less than 20-----	86
20 or over but less than 28-----	82
28 or over but less than 34-----	75
34 or over but less than 39-----	68
39 or over but less than 42-----	55
42 or over but less than 44-----	40
44 or over but less than 46-----	27
46 or over but less than 47-----	14
47 or over-----	0

1 **“(2) TAXABLE YEARS BEGINNING IN 1964.—**

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 10-----	87
10 or over but less than 19-----	83
19 or over but less than 27-----	79
27 or over but less than 33-----	72
33 or over but less than 37-----	65
37 or over but less than 40-----	53
40 or over but less than 42-----	38
42 or over but less than 44-----	26
44 or over but less than 45-----	13
45 or over-----	0

2 **“(3) TAXABLE YEARS BEGINNING AFTER DECEM-**
3 **BER 31, 1964.—**

“If the effective foreign tax rate is (percentage)—	The required minimum dis- tribution of earnings and profits is (percentage)—
Under 9-----	83
9 or over but less than 18-----	79
18 or over but less than 26-----	76
26 or over but less than 32-----	69
32 or over but less than 36-----	63
36 or over but less than 39-----	51
39 or over but less than 41-----	37
41 or over but less than 42-----	25
42 or over but less than 43-----	13
43 or over-----	0”

4 **(c) AMENDMENT OF SECTION 242.—**Section 242 (a)
5 (b relating to deduction for partially tax-exempt interest) is
6 amended by adding at the end thereof the following new
7 sentence: “No deduction shall be allowed under this section
8 for purposes of any surtax imposed by this subtitle.”

PART III—EFFECTIVE DATES

1

SEC. 131. GENERAL RULE.

2

3 Except for purposes of section 21 of the Internal Reve-
4 nue Code of 1954 (relating to effect of changes in rates
5 during a taxable year), the amendments made by parts
6 I and II of this title shall apply with respect to taxable
7 years beginning after December 31, 1963.

SEC. 132. FISCAL YEAR TAXPAYERS.

8

9 Effective with respect to taxable years ending after
10 December 31, 1963, subsection (d) of section 21 (relating
11 to effect of changes in rates during a taxable year) is
12 amended to read as follows:

13 “(d) CHANGES MADE BY REVENUE ACT OF ~~1963~~
14 1964.—

15 “(1) INDIVIDUALS.—In applying subsection (a)
16 to the taxable year of an individual beginning in 1963
17 and ending in 1964—

18 “(A) the rate of tax for the period on and after
19 January 1, 1964, shall be applied to the tax-
20 able income determined as if part IV of subchapter
21 B (relating to standard deduction for individuals),
22 as amended by the Revenue Act of ~~1963~~ 1964,
23 applied to taxable years ending after December 31,
24 1963, and

1 “(B) section 4 (relating to rules for optional
2 tax), as amended by such Act, shall be applied to
3 taxable years ending after December 31, 1963.

4 In applying subsection (a) to a taxable year of an
5 individual beginning in 1963 and ending in 1964, or
6 beginning in 1964 and ending in 1965, the change in
7 the tax imposed under section 3 shall be treated as a
8 change in a rate of tax.

9 “(2) CORPORATIONS.—In applying subsection (a)
10 to a taxable year of a corporation beginning in 1963
11 and ending in 1964, if—

12 “(A) the surtax exemption of such corpora-
13 tion for such taxable year is less than \$25,000 by
14 reason of the application of section 1561 (relating
15 to surtax exemptions in case of certain controlled
16 corporations), or

17 “(B) an additional tax is imposed on the tax-
18 able income of such corporation for such taxable
19 year by section 1562 (b) (relating to additional tax
20 in case of component members of controlled groups
21 which elect multiple surtax exemptions),
22 the change in the surtax exemption, or the imposition
23 of such additional tax, shall be treated as a change in a
24 rate of tax taking effect on January 1, 1964.”

1 **Title II—Structural Changes**

2 **SEC. 201. DIVIDENDS RECEIVED BY INDIVIDUALS.**

3 (a) **REDUCTION OF 4 PERCENT CREDIT TO 2 PERCENT** 4 **CREDIT FOR CALENDAR YEAR 1964.—**

5 (1) **GENERAL RULE.**—Section 34 (a) (relating to
6 general rule for credit for dividends received) is amended
7 by striking out “an amount equal to 4 percent of the
8 dividends which are received after July 31, 1954, from
9 domestic corporations and are included in gross income”
10 and inserting in lieu thereof:

11 “an amount equal to the following percentage of the divi-
12 dends which are received from domestic corporations and are
13 included in gross income:

14 “(1) 4 percent of the amount of such dividends
15 which are received before January 1, 1964, and

16 “(2) 2 percent of the amount of such dividends
17 which are received during the calendar year 1964.”

18 (2) **LIMITATIONS.**—Section 34 (b) (2) (relating
19 to limitations on amount of credit) is amended—

20 (A) by inserting “, or beginning after Decem-
21 ber 31, 1963” after “1955” at the end of sub-
22 paragraph (A), and

23 (B) by inserting “, and beginning before Jan-
24 uary 1, 1964” after “1954” at the end of subpara-
25 graph (B).

1 (b) REPEAL OF CREDIT FOR DIVIDENDS RECEIVED BY
 2 INDIVIDUALS.—Effective with respect to dividends received
 3 after December 31, 1964, section 34 (relating to dividends
 4 received by individuals) is hereby repealed.

5 (c) DOUBLING OF AMOUNT OF PARTIAL EXCLUSION
 6 FROM GROSS INCOME OF DIVIDENDS RECEIVED BY INDIVID-
 7 UALS.—Section 116 (a) (relating to partial exclusion from
 8 gross income of dividends received by individuals) is
 9 amended by striking out “\$50” each place it appears and
 10 inserting in lieu thereof “\$100”.

11 (d) CONFORMING AMENDMENTS.—

12 (1) The table of sections for subpart A of part IV
 13 of subchapter A of chapter 1 is amended by striking
 14 out

“Sec. 34. Dividends received by individuals.”

15 (2) Section 35 (b) (1) is amended by striking out
 16 “the sum of the credits allowable under sections 33 and
 17 34” and inserting in lieu thereof “the credit allowable
 18 under section 33”.

19 (3) Section 37 (a) is amended by striking out
 20 “section 34 (relating to credit for dividends received
 21 by individuals),”.

22 (4) Section 46 (a) (3) is amended by striking out
 23 subparagraph (B), and by redesignating subparagraphs
 24 (C) and (D) as “(B)” and “(C)”, respectively.

1 (5) Section 584 (c) (2) is amended by striking
2 out "section 34 or".

3 (6) (A) Section 642 (a) is amended by striking
4 out paragraph (3) ;

5 (B) Section 642 (i) is amended to read as follows:

6 “(i) CROSS REFERENCES.—

 “(1) For disallowance of standard deduction in case of
 estates and trusts, see section 142(b)(4).

 “(2) For special rule for determining the time of re-
 ceipt of dividends by a beneficiary under section 652 or
 662, see section 116(c)(3).”

7 (C) Section 116 (c) is amended by adding at the
8 end thereof the following new paragraph:

9 “(3) The amount of dividends properly allocable
10 to a beneficiary under section 652 or 662 shall be deemed
11 to have been received by the beneficiary ratably on the
12 same date that the dividends were received by the
13 estate or trust.”

14 (7) Section 702 (a) (5) is amended by striking out
15 “a credit under section 34,” and the comma after “sec-
16 tion 116”.

17 (8) Section 854 (a) is amended by striking out
18 “section 34 (a) (relating to credit for dividends re-
19 ceived by individuals),” and the comma after “section
20 116 (relating to an exclusion for dividends received by
21 individuals) ”.

22 (9) Section 854 (b) (1) is amended by striking out

1 “the credit under section 34 (a),” and the comma after
2 “section 116”.

3 (10) Section 854 (b) (2) is amended by striking
4 out “the credit under section 34,” and the comma after
5 “section 116”.

6 (11) Section 857 (c) is amended by striking out
7 “section 34 (a) (relating to credit for dividends received
8 by individuals),” and the comma after “section 116
9 (relating to an exclusion for dividends received by
10 individuals) ”.

11 (12) Section 871 (b) is amended by striking out
12 “the sum of the credits under sections 34 and 35” and
13 inserting in lieu thereof “the credit under section 35”.

14 (13) Section 1375 (b) is amended by striking out
15 “section 34,” and the comma after “section 37”.

16 (14) Section 6014 (a) is amended by striking out
17 “34 or”.

18 (e) EFFECTIVE DATES.—The amendments made by
19 subsection (a) shall apply with respect to taxable years end-
20 ing after December 31, 1963. The amendment made by sub-
21 section (b) shall apply with respect to taxable years ending
22 after December 31, 1964. The amendment made by sub-
23 section (c) shall apply with respect to taxable years begin-
24 ning after December 31, 1963. The amendments made
25 by subsection (d) shall apply with respect to dividends

1 received after December 31, 1964, in taxable years ending
2 after such date.

3 **SEC. 202. LIMITATION ON RETIREMENT INCOME.**

4 (a) *INCREASE IN LIMITATION IN CASE OF CERTAIN*
5 *MARRIED COUPLES.*—Section 37 (relating to retirement in-
6 come) is amended by redesignating subsection (i) as sub-
7 section (j) and inserting after subsection (h) the following
8 new subsection:

9 “(i) *EXCEPTIONS TO LIMITATION ON AMOUNT OF RE-*
10 *TIREMENT INCOME IN CASE OF CERTAIN JOINT RE-*
11 *TURNS.*—In the case of a joint return of a husband and wife
12 both of whom have attained the age of 65 before the close
13 of the taxable year—

14 “(1) *BOTH SPOUSES HAVE RECEIVED EARNED*
15 *INCOME.*—If both spouses are individuals who have re-
16 ceived earned income before the beginning of the tax-
17 able year (within the meaning of subsection (b)) and if
18 the sum of the retirement income and the amounts de-
19 scribed in paragraphs (1) and (2) of subsection (d)
20 received by either spouse during the taxable year is less
21 than \$762, the \$1,524 amount referred to in subsection
22 (d) shall, with respect to the other spouse, be increased
23 by an amount equal to the amount by which such sum is
24 less than \$762.

25 “(2) *ONE SPOUSE HAS NOT RECEIVED EARNED*
26 *INCOME.*—If either spouse is an individual who has not

received earned income before the beginning of the taxable year (within the meaning of subsection (b)), the \$1,524 amount referred to in subsection (d) shall, with respect to the other spouse, be increased by \$762, minus the sum of the amounts described in paragraphs (1) and (2) of subsection (d) received by his spouse."

(b) *EFFECTIVE DATE.*—The amendment made by subsection (a) shall apply to taxable years beginning after December 31, 1963.

SEC. 202 203. REPEAL OF REQUIREMENT THAT BASIS OF SECTION 38 PROPERTY BE REDUCED BY 7 PERCENT; OTHER PROVISIONS RELATING TO INVESTMENT CREDIT.

(a) **REPEAL OF REQUIREMENT THAT BASIS BE REDUCED.**—

(1) **IN GENERAL.**—Subsection (g) of section 48 (requiring that the basis of section 38 property be reduced by 7 percent of the qualified investment) is hereby repealed.

(2) **INCREASE IN BASIS OF PROPERTY PLACED IN SERVICE BEFORE ~~JULY 1, 1963~~ JANUARY 1, 1964.**—

(A) The basis of any section 38 property (as defined in section 48(a) of the Internal Revenue Code of 1954) placed in service before ~~July 1, 1963~~ January 1, 1964, shall be increased, under

1 regulations prescribed by the Secretary of the
2 Treasury or his delegate, by an amount equal to
3 7 percent of the qualified investment with respect
4 to such property under section 46(c) of the In-
5 ternal Revenue Code of 1954. If there has been
6 any increase with respect to such property under
7 section 48(g) (2) of such Code, the increase under
8 the preceding sentence shall be appropriately re-
9 duced therefor.

10 (B) If a lessor made the election provided by
11 section 48(d) of the Internal Revenue Code of 1954
12 with respect to property placed in service before
13 ~~July 1, 1963~~ *January 1, 1964*—

14 (i) subparagraph (A) shall not apply
15 with respect to such property, but

16 (ii) under regulations prescribed by the
17 Secretary of the Treasury or his delegate, the
18 deductions otherwise allowable under section
19 162 of such Code to the lessee for amounts
20 paid to the lessor under the lease (or, if such
21 lessee has purchased such property, the basis
22 of such property) shall be adjusted in a manner
23 consistent with subparagraph (A).

24 (C) The adjustments under this paragraph
25 shall be made as of the first day of the taxpayer's

1 first taxable year which begins after ~~June 30, 1963~~
 2 *December 31, 1963.*

3 (3) CONFORMING AMENDMENTS.—

4 (A) The last sentence of section 48 (d) (re-
 5 lating to certain leased property) is hereby repealed.

6 (B) Section 181 (relating to deduction for cer-
 7 tain unused investment credit) is hereby repealed.

8 (C) Section 1016 (a) (19) (relating to adjust-
 9 ments to basis) is amended to read as follows:

10 “(19) to the extent provided in section 48 (g) and
 11 in section ~~202~~ 203 (a) (2) of the Revenue Act of ~~1963~~
 12 *1964*, in the case of property which is or has been
 13 section 38 property (as defined in section 48 (a)) ;”

14 (D) The table of sections for part VI of sub-
 15 chapter B of chapter 1 is amended by striking out
 16 the following:

“Sec. 181. Deduction for certain unused investment credit.”

17 (4) EFFECTIVE DATE.—Paragraphs (1) and (3)
 18 of this subsection shall apply—

19 (A) in the case of property placed in service
 20 after ~~June 30, 1963~~ *December 31, 1963*, with
 21 respect to taxable years ending after such date, and

22 (B) in the case of property placed in service
 23 before ~~July 1, 1963~~ *January 1, 1964*, with respect

1 to taxable years beginning after ~~June 30, 1963~~
 2 *December 31, 1963.*

3 (b) BASIS OF CERTAIN LEASED PROPERTY TO
 4 LESSEE.—Paragraphs (1) and (2) of section 48 (d) (relat-
 5 ing to certain leased property) are amended to read as
 6 follows:

7 “(1) except as provided in paragraph (2), the
 8 fair market value of such property, or

9 “(2) if such property is leased by a corporation
 10 which is a member of an affiliated group (within the
 11 meaning of section 46 (a) (5)) to another corporation
 12 which is a member of the same affiliated group, the
 13 basis of such property to the lessor.”

14 (c) TREATMENT OF ELEVATORS AND ESCALATORS
 15 FOR PURPOSES OF THE INVESTMENT CREDIT.—Section 48

16 (a) (1) (relating to section 38 property) is amended—

17 (1) by striking out the period at the end of sub-
 18 paragraph (B) and inserting in lieu thereof “, or”; and

19 (2) by adding after subparagraph (B) the follow-
 20 ing new subparagraph:

21 “(C) elevators and escalators, but only if—

22 “(i) the construction, reconstruction, or
 23 erection of the elevator or escalator is completed
 24 by the taxpayer after June 30, 1963, or

25 “(ii) the elevator or escalator is acquired

1 after June 30, 1963, and the original use of
2 such elevator or escalator commences with the
3 taxpayer and commences after such date.”

4 (d) TREATMENT OF ELEVATORS AND ESCALATORS
5 FOR PURPOSES OF SECTION 1245.—Section 1245 (a) (re-
6 lating to gain from dispositions of certain depreciable prop-
7 erty) is amended—

8 (1) by striking out so much of paragraph (2) as
9 precedes the second sentence thereof and inserting in
10 lieu thereof the following:

11 “(2) RECOMPUTED BASIS.—For purposes of this
12 section, the term ‘recomputed basis’ means—

13 “(A) with respect to any property referred
14 to in paragraph (3) (A) or (B), its adjusted
15 basis recomputed by adding thereto all adjustments,
16 attributable to periods after December 31, 1961, or

17 “(B) with respect to any property referred to
18 in paragraph (3) (C), its adjusted basis recomputed
19 by adding thereto all adjustments, attributable to
20 periods after June 30, 1963,

21 reflected in such adjusted basis on account of deductions
22 (whether in respect of the same or other property)
23 allowed or allowable to the taxpayer or to any other
24 person for depreciation, or for amortization under section
25 168.”;

1 (2) by striking out the period at the end of para-
 2 graph (3) (B) and inserting in lieu thereof “, or”;
 3 and

4 (3) by adding at the end of paragraph (3) the
 5 following new subparagraph:

6 “(C) an elevator or an escalator.”

7 (e) TREATMENT OF INVESTMENT CREDIT BY FED-
 8 ERAL REGULATORY AGENCIES.—It was the intent of the
 9 Congress in providing an investment credit under section 38
 10 of the Internal Revenue Code of 1954, and it is the intent
 11 of the Congress in repealing the reduction in basis required
 12 by section 48 (g) of such Code, to provide an incentive for
 13 modernization and growth of private industry (including that
 14 portion thereof which is regulated). Accordingly, Congress
 15 does not intend that any agency or instrumentality of the
 16 United States having jurisdiction with respect to a taxpayer
 17 shall, without the consent of the taxpayer, use—

18 (1) in the case of public utility property (as de-
 19 fined in section 46 (c) (3) (B) of the Internal Revenue
 20 Code of 1954), more than a proportionate part (deter-

1 mined with reference to the average useful life of the
2 property with respect to which the credit was allowed)
3 of the credit against tax allowed for any taxable year by
4 section 38 of such Code, or

5 (2) in the case of any other property, any credit
6 against tax allowed by section 38 of such Code,
7 to reduce such taxpayer's Federal income taxes for the pur-
8 pose of establishing the cost of service of the taxpayer or to
9 accomplish a similar result by any other method.

10 (f) EFFECTIVE DATES.—

11 (1) The amendments made by subsection (b) shall
12 apply with respect to property possession of which is
13 transferred to a lessee on or after the date of enactment
14 of this Act.

15 (2) The amendments made by subsection (c) shall
16 apply with respect to taxable years ending after June
17 30, 1963.

18 (3) The amendments made by subsection (d) shall
19 apply with respect to dispositions after December 31,
20 1963, in taxable years ending after such date.

1 **SEC. 203 204. GROUP-TERM LIFE INSURANCE PURCHASED**
 2 **FOR EMPLOYEES.**

3 (a) INCLUSION IN INCOME.—

4 (1) Part II of subchapter B of chapter 1 (relating
 5 to items specifically included in gross income) is
 6 amended by adding at the end thereof the following new
 7 section:

8 **“SEC. 79. GROUP-TERM LIFE INSURANCE PURCHASED**
 9 **FOR EMPLOYEES.**

10 “(a) GENERAL RULE.—There shall be included in the
 11 gross income of an employee for the taxable year an amount
 12 equal to the cost of group-term life insurance on his life
 13 provided for part or all of such year under a policy (or
 14 policies) carried directly or indirectly by his employer (or
 15 employers) ; but only to the extent that such cost exceeds
 16 the sum of—

17 ~~“(1) the cost of so much of such insurance as does~~
 18 ~~not exceed \$30,000 of protection, and~~

19 “(1) the cost of \$70,000 of such insurance, and

20 “(2) the amount (if any) paid by the employee
 21 toward the purchase of such insurance.

22 “(b) EXCEPTIONS.—Subsection (a) shall not apply
 23 to—

24 “(1) the cost of group-term life insurance on the
 25 life of an individual which is provided under a policy

1 carried directly or indirectly by an employer after such
 2 individual has terminated his employment with such
 3 employer and either has reached the retirement age with
 4 respect to such employer or is disabled (within the
 5 meaning of paragraph (3) of section 213 (g), deter-
 6 mined without regard to paragraph (4) thereof),

7 “(2) the cost of any portion of the group-term life
 8 insurance on the life of an employee provided during
 9 part or all of the taxable year of the employee under
 10 which—

11 “(A) the employer is directly or indirectly
 12 the beneficiary, or

13 “(B) a person described in section 170 (c) is
 14 the sole beneficiary,

15 for the entire period during such taxable year for
 16 which the employee receives such insurance, and

17 “(3) the cost of any group-term life insurance
 18 which is provided under a contract to which section
 19 72 (m) (3) applies.

20 ~~“(e) DETERMINATION OF COST OF INSURANCE.—~~

21 ~~“(1) UNIFORM PREMIUM TABLE METHOD.—For~~
 22 ~~purposes of this section and chapter 24, the cost of~~
 23 ~~group-term life insurance on the life of an employee~~
 24 ~~provided during any period shall be determined on the~~
 25 ~~basis of uniform premiums (computed on the basis of~~

1 5-year age brackets) prescribed by regulations by the
2 Secretary or his delegate.

3 “(2) POLICY COST METHOD.—If the employer so
4 elects (at such time and in such manner as the Secretary
5 or his delegate prescribes) with respect to any employee
6 for any period, the cost of group-term life insurance on
7 the life of such employee shall (in lieu of being deter-
8 mined under paragraph (1)) be determined on the basis
9 of the average premium cost under the policy for the
10 ages included within the age bracket which would be
11 applicable to such employee under paragraph (1). The
12 preceding sentence shall not apply for purposes of deter-
13 mining the cost of insurance provided under a policy if
14 the premium on such policy is not computed on the
15 basis of the cost of such insurance at the ages (or at the
16 age brackets applicable under paragraph (1)) of the
17 individuals comprising the group.

18 “(3) EMPLOYED INDIVIDUALS OVER AGE 64.—
19 In the case of an employee who has attained age 64, the
20 cost determined under paragraph (1) or (2), as the
21 case may be, shall not exceed the cost which would be
22 determined under such paragraph with respect to such
23 individual if he were age 63.”

1 “(c) *DETERMINATION OF COST OF INSURANCE.*—For
 2 purposes of this section and section 6052, the cost of group-
 3 term insurance on the life of an employee provided during any
 4 period shall be determined on the basis of uniform premiums
 5 (computed on the basis of 5-year age brackets) prescribed by
 6 regulations by the Secretary or his delegate. In the case of
 7 an employee who has attained age 64, the cost prescribed
 8 shall not exceed the cost with respect to such individual if he
 9 were age 63.”

10 (2) The table of sections for part II of subchapter
 11 B of chapter 1 is amended by adding at the end thereof
 12 the following:

“Sec. 79. Group-term life insurance purchased for em-
 ployees.”

13 (3) Section 7701 (a) (20) (defining employee)
 14 is amended by striking out “For the purpose of apply-
 15 ing the provisions of sections 104” and inserting in lieu
 16 thereof “For the purpose of applying the provisions of
 17 sections 79 and 218 section 79 with respect to group-
 18 term life insurance purchased for employees, for the
 19 purpose of applying the provisions of section 104”.

20 ~~(b) CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR~~

1 ~~GROUP-TERM LIFE INSURANCE.~~—Part VII of subchapter
 2 B of chapter 1 (relating to additional itemized deductions
 3 for individuals) is amended by inserting after section 217
 4 the following new section:

5 “SEC. 218. CERTAIN CONTRIBUTIONS BY EMPLOYEES FOR
 6 **GROUP-TERM LIFE INSURANCE.**

7 “In the case of an employee on whose life group-term
 8 life insurance in excess of \$30,000 is provided for part or
 9 all of the taxable year under a policy (or policies) carried
 10 directly or indirectly by his employer (or employers), there
 11 shall be allowed as a deduction for such taxable year an
 12 amount equal to the excess (if any) of—

13 “(1) the amount paid by the employee toward
 14 the purchase of such insurance in excess of \$30,000;
 15 over

16 “(2) the cost (determined in the manner provided
 17 by paragraph (1) of section 79(c), without regard to
 18 paragraph (3) thereof) of such insurance in excess of
 19 \$30,000.

20 For purposes of this section, there shall not be taken into
 21 account any insurance the cost of which is excepted from
 22 the application of subsection (a) of section 79 by subsection
 23 (b) thereof.”

24 (e) (b) WITHHOLDING.—Section 3401 (a) (relating
 25 to definition of wages) is amended by striking out the period

1 at the end of paragraph (13) and inserting in lieu thereof
 2 “; or”, and by adding at the end thereof the following new
 3 paragraph:

4 “(14) in the form of group-term life insurance on
 5 the life of an employee, but only to the extent the cost
 6 of such insurance is not includible in the employee’s
 7 gross income under section 79(a). For purposes of
 8 this paragraph, the extent to which the cost of group-
 9 term life insurance is includible in the employee’s gross
 10 income under section 79(a) shall be determined as if
 11 the employer were the only employer paying such
 12 employee remuneration in the form of such insurance;
 13 or”.

14 *(c) INFORMATION REPORTING.—*

15 *(1) REQUIREMENT.—Subpart C of part III of*
 16 *subchapter A of chapter 61 (relating to information and*
 17 *returns) is amended by adding at the end thereof the*
 18 *following new section:*

19 **“SEC. 6052. RETURNS REGARDING PAYMENT OF WAGES**
 20 **IN THE FORM OF GROUP-TERM LIFE IN-**
 21 **SURANCE.**

22 *“(a) REQUIREMENT OF REPORTING.—Every em-*
 23 *ployer who during any calendar year provides group-term*
 24 *life insurance on the life of an employee during part or all*
 25 *of such calendar year under a policy (or policies) carried*

1 *directly or indirectly by such employer shall make a return*
 2 *according to the forms or regulations prescribed by the Sec-*
 3 *retary or his delegate, setting forth the cost of such insur-*
 4 *ance and the name and address of the employee on whose*
 5 *life such insurance is provided, but only to the extent that*
 6 *the cost of such insurance is includible in the employee's gross*
 7 *income under section 79(a). For purposes of this section,*
 8 *the extent to which the cost of group-term life insurance is*
 9 *includible in the employee's gross income under section 79*
 10 *(a) shall be determined as if the employer were the only*
 11 *employer paying such employee remuneration in the form of*
 12 *such insurance.*

13 “(b) *STATEMENTS TO BE FURNISHED TO EMPLOYEES*
 14 *WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—*
 15 *Every employer making a return under subsection (a) shall*
 16 *furnish to each employee whose name is set forth in such*
 17 *return a written statement showing the cost of the group-*
 18 *term life insurance shown on such return. The written*
 19 *statement required under the preceding sentence shall be fur-*
 20 *nished to the employee on or before January 31 of the year*
 21 *following the calendar year for which the return under sub-*
 22 *section (a) was made.”*

23 (2) *PENALTIES FOR FAILURE TO FURNISH STATE-*
 24 *MENTS TO PERSONS WITH RESPECT TO WHOM RETURNS*
 25 *ARE FILED.—Section 6678 (relating to failure to fur-*
 26 *nish certain statements) is amended—*

1 (A) by striking out "or 6049(c)" and insert-
2 ing in lieu thereof "6049(c), or 6052(b)"; and

3 (B) by striking out "or 6049(a)(1)," and
4 inserting in lieu thereof "6049(a)(1), or 6052
5 (a),".

6 (3) CLERICAL AMENDMENT.—The table of sections
7 for subpart C of part III of subchapter A of chapter 61
8 is amended by adding at the end thereof the following:

*"Sec. 6052. Returns regarding payment of wages in the form
of group-term life insurance."*

9 (4) CROSS REFERENCE.—

*For penalty for failure to file information returns re-
quired by section 602(a) of the Internal Revenue Code
of 1954 (added by paragraph (1) of this subsection), see
section 6652(a)(3) of such Code (as amended by section
222(b)(2) of this Act).*

10 (d) EFFECTIVE DATES.—The amendments made by
11 subsections (a) and ~~(b)~~ (c), and paragraph (3) of section
12 6652(a) of the Internal Revenue Code of 1954 (as
13 amended by section 222(b)(2) of this Act), shall apply with
14 respect to group-term life insurance provided after Decem-
15 ber 31, 1963, in taxable years ending after such date. The
16 amendments made by subsection ~~(e)~~ (b) shall apply with
17 respect to remuneration paid after December 31, 1963, in
18 the form of group-term life insurance provided after such
19 date.

1 **SEC. 204. INCLUSION IN GROSS INCOME OF REIMBURSED**
 2 **MEDICAL EXPENSES TO THE EXTENT THAT**
 3 **THE REIMBURSEMENT EXCEEDS THE EX-**
 4 **PENSES.**

5 ~~(a)~~ **GENERAL RULE.**—Part II of subchapter B of chap-
 6 ter 1 (relating to items specifically included in gross income)
 7 is amended by adding at the end thereof the following new
 8 section:

9 **“SEC. 80. REIMBURSEMENT OF MEDICAL EXPENSES IN**
 10 **EXCESS OF SUCH EXPENSES.**

11 “Notwithstanding any other provision of this subchapter,
 12 amounts received through accident or health insurance for
 13 medical expenses shall be included in gross income to the
 14 extent the aggregate of such amounts received for any per-
 15 sonal injury or sickness exceeds the aggregate amount of the
 16 medical expenses incurred by the taxpayer for such
 17 personal injury or sickness. For purposes of this section,
 18 the term ‘medical expenses’ means expenses for medical care
 19 as defined in section 213(e), except that it does not include
 20 amounts paid for accident or health insurance.”

21 ~~(b)~~ **CLERICAL AMENDMENT.**—The table of sections for
 22 such part II is amended by adding at the end thereof the
 23 following:

“Sec. 80. Reimbursement of medical expenses in excess of
 such expenses.”

24 ~~(c)~~ **TECHNICAL AMENDMENT.**—Subsection (c) of sec-

tion 105 (relating to the definition of accident and health plans) is amended by striking out "this section" and inserting in lieu thereof "this section, section 80,".

(d) ~~EFFECTIVE DATE.~~—The amendments made by this section shall apply to taxable years beginning after December 31, 1963.

SEC. 205. AMOUNTS RECEIVED UNDER WAGE CONTINUATION PLANS.

(a) WAGE CONTINUATION PLANS.—The second sentence of section 105 (d) (relating to wage continuation plans) is amended to read as follows: "The preceding sentence shall not apply to amounts attributable to the first 30 calendar days in such period."

(b) ~~EFFECTIVE DATE.~~—The amendment made by subsection (a) shall apply to amounts attributable to periods of absence commencing after December 31, 1963.

SEC. 206. EXCLUSION FROM GROSS INCOME OF GAIN ON SALE OR EXCHANGE OF RESIDENCE OF INDIVIDUAL WHO HAS ATTAINED AGE 65.

(a) IN GENERAL.—Part III of subchapter B of chapter 1 (relating to items specifically excluded from gross income) is amended by redesignating section 121 as section 122 and by inserting before such section the following new section:

1 **"SEC. 121. GAIN FROM SALE OR EXCHANGE OF RESIDENCE**
2 **OF INDIVIDUAL WHO HAS ATTAINED AGE 65.**

3 **"(a) GENERAL RULE.** At the election of the taxpayer,
4 gross income does not include gain from the sale or exchange
5 of property if—

6 **"(1)** the taxpayer has attained the age of 65 before
7 the date of such sale or exchange, and

8 **"(2)** during the 8-year period ending on the date
9 of the sale or exchange, such property has been owned
10 and used by the taxpayer as his principal residence for
11 periods aggregating 5 years or more.

12 **"(b) LIMITATIONS.—**

13 **"(1) WHERE ADJUSTED SALES PRICE EXCEEDS**
14 **\$20,000.—**If the adjusted sales price of the property
15 sold or exchanged exceeds \$20,000, subsection (a)
16 shall apply to that portion of the gain which bears the
17 same ratio to the total amount of such gain as \$20,000
18 bears to such adjusted sales price. For purposes of the
19 preceding sentence, the term 'adjusted sales price' has
20 the meaning assigned to such term by section 1034

21 **(b) (1)** (determined without regard to subsection
22 **(d) (7)** of this section).

23 **"(2) APPLICATION TO ONLY ONE SALE OR EX-**
24 **CHANGE.—**Subsection (a) shall not apply to any sale
25 or exchange by the taxpayer if an election by the

1 taxpayer or his spouse under subsection (a) with
2 respect to any other sale or exchange is in effect.

3 “(c) ELECTION.—An election under subsection (a)
4 may be made or revoked at any time before the expiration
5 of the period for making a claim for credit or refund of the
6 tax imposed by this chapter for the taxable year in which
7 the sale or exchange occurred, and shall be made or revoked
8 in such manner as the Secretary or his delegate shall by
9 regulations prescribe. In the case of a taxpayer who is
10 married, an election under subsection (a) or a revocation
11 thereof may be made only if his spouse joins in such election
12 or revocation.

13 “(d) SPECIAL RULES.—

14 “(1) PROPERTY HELD JOINTLY BY HUSBAND AND
15 WIFE.—For purposes of this section, if—

16 “(A) property is held by a husband and wife
17 as joint tenants, tenants by the entirety, or com-
18 munity property,

19 “(B) such husband and wife make a joint re-
20 turn under section 6013 for the taxable year of the
21 sale or exchange, and

22 “(C) one spouse satisfies the age, holding, and
23 use requirements of subsection (a) with respect to
24 such property,

25 then both husband and wife shall be treated as satisfying
26 the age, holding, and use requirements of subsection (a)
27 with respect to such property.

1 “(2) **PROPERTY OF DECEASED SPOUSE.**—For pur-
2 poses of this section, in the case of an unmarried in-
3 dividual whose spouse is deceased on the date of the sale
4 or exchange of property, if—

5 “(A) the deceased spouse (during the 8-year
6 period ending on the date of the sale or exchange)
7 satisfied the holding and use requirements of sub-
8 section (a) (2) with respect to such property, and

9 “(B) no election by the deceased spouse under
10 subsection (a) is in effect with respect to a prior
11 sale or exchange,

12 then such individual shall be treated as satisfying the
13 holding and use requirements of subsection (a) (2) with
14 respect to such property.

15 “(3) **TENANT-STOCKHOLDER IN COOPERATIVE**
16 **HOUSING CORPORATION.**—For purposes of this section,
17 if the taxpayer holds stock as a tenant-stockholder (as
18 defined in section 216) in a cooperative housing corpora-
19 tion (as defined in such section), then—

20 “(A) the holding requirements of subsection
21 (a) (2) shall be applied to the holding of such
22 stock, and

23 “(B) the use requirements of subsection (a)
24 (2) shall be applied to the house or apartment
25 which the taxpayer was entitled to occupy as such
26 stockholder.

1 “(4) INVOLUNTARY CONVERSIONS.—For purposes
2 of this section, the destruction, theft, seizure, requisition,
3 or condemnation of property shall be treated as the sale
4 of such property.

5 “(5) PROPERTY USED IN PART AS PRINCIPAL RESI-
6 DENCE.—In the case of property only a portion of which,
7 during the 8-year period ending on the date of the sale
8 or exchange, has been owned and used by the taxpayer
9 as his principal residence for periods aggregating 5 years
10 or more, this section shall apply with respect to so much
11 of the gain from the sale or exchange of such property
12 as is determined, under regulations prescribed by the
13 Secretary or his delegate, to be attributable to the por-
14 tion of the property so owned and used by the taxpayer.

15 “(6) DETERMINATION OF MARITAL STATUS.—In
16 the case of any sale or exchange, for purposes of this
17 section—

18 “(A) the determination of whether an indi-
19 vidual is married shall be made as of the date of
20 the sale or exchange; and

21 “(B) an individual legally separated from his
22 spouse under a decree of divorce or of separate
23 maintenance shall not be considered as married.

24 “(7) APPLICATION OF SECTIONS 1033 AND
25 1034.—In applying sections 1033 (relating to involun-
26 tary conversions) and 1034 (relating to sale or exchange

1 of residence), the amount realized from the sale or ex-
 2 change of property shall be treated as being the amount
 3 determined without regard to this section, reduced by the
 4 amount of gain not included in gross income pursuant
 5 to an election under this section."

6 (b) TECHNICAL AND CLERICAL AMENDMENTS.—

7 (1) Section 6012 (c) (relating to persons required
 8 to make returns of income) is amended to read as
 9 follows:

10 "(c) CERTAIN INCOME EARNED ABROAD OR FROM
 11 SALE OF RESIDENCE.—For purposes of this section, gross
 12 income shall be computed without regard to the exclusion
 13 provided for in section 121 (relating to sale of residence by
 14 individual who has attained age 65) and without regard to
 15 the exclusion provided for in section 911 (relating to earned
 16 income from sources without the United States)."

17 (2) The table of sections for part III of subchapter
 18 B of chapter 1 is amended by striking out

"Sec. 121. Cross references to other Acts."

19 and inserting in lieu thereof

"Sec. 121. Gain from sale or exchange of residence of indi-
 vidual who has attained age 65.

"Sec. 122. Cross references to other Acts."

20 (3) Section 1033 (h) (relating to involuntary con-
 21 versions) is amended by adding at the end thereof the
 22 following new paragraph:

"(3) For exclusion from gross income of certain gain
 from involuntary conversion of residence of taxpayer
 who has attained age 65, see section 121."

(4) Section 1034 (relating to sale or exchange of residence) is amended by adding at the end thereof the following new subsection:

“(k) CROSS REFERENCE.—

“For exclusion from gross income of certain gain from sale or exchange of residence of taxpayer who has attained age 65, see section 121.”

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to dispositions after December 31, 1963, in taxable years ending after such date.

SEC. 207. DENIAL OF DEDUCTION FOR CERTAIN STATE, LOCAL, AND FOREIGN TAXES.

(a) IN GENERAL.—Subsections (a), (b), and (c) of section 164 (relating to deduction for taxes) are amended to read as follows:

“(a) GENERAL RULE.—Except as otherwise provided in this section, the following taxes shall be allowed as a deduction for the taxable year within which paid or accrued:

“(1) State and local, and foreign, real property taxes.

“(2) State and local personal property taxes.

“(3) State and local, and foreign, income, war profits, and excess profits taxes.

“(4) State and local general sales taxes.

“(5) *State and local taxes on the sale of gasoline, diesel fuel, and other motor fuels.*

“(6) *State and local taxes on the registration or*

1 *licensing of highway motor vehicles and on licenses for*
 2 *the operation of highway motor vehicles.*

3 In addition, there shall be allowed as a deduction State and
 4 local, and foreign, taxes not described in the preceding sen-
 5 tence which are paid or accrued within the taxable year in
 6 carrying on a trade or business or an activity described in
 7 section 212 (relating to expenses for production of income).

8 “(b) DEFINITIONS AND SPECIAL RULES.—For pur-
 9 poses of this section—

10 “(1) PERSONAL PROPERTY TAXES.—The term
 11 ‘personal property tax’ means an ad valorem tax which
 12 is imposed on an annual basis in respect of personal
 13 property.

14 “(2) GENERAL SALES TAXES.—

15 “(A) IN GENERAL.—The term ‘general sales
 16 tax’ means a tax imposed at one rate in respect of
 17 the sale at retail of a broad range of classes of items.

18 “(B) SPECIAL RULES FOR FOOD, ETC.—In the
 19 case of items of food, clothing, medical supplies, and
 20 motor vehicles—

21 “(i) the fact that the tax does not apply
 22 in respect of some or all of such items shall not
 23 be taken into account in determining whether
 24 the tax applies in respect of a broad range of
 25 classes of items, and

1 “(ii) the fact that the rate of tax ap-
 2 plicable in respect of some or all of such items
 3 is lower than the general rate of tax shall not
 4 be taken into account in determining whether
 5 the tax is imposed at one rate.

6 “(C) ITEMS TAXED AT DIFFERENT RATES.—
 7 Except in the case of a lower rate of tax applicable
 8 in respect of an item described in subparagraph (B),
 9 no deduction shall be allowed under this section for
 10 any general sales tax imposed in respect of an item
 11 at a rate other than the general rate of tax.

12 “(D) COMPENSATING USE TAXES.—A com-
 13 pensating use tax in respect of an item shall be
 14 treated as a general sales tax. For purposes of the
 15 preceding sentence, the term ‘compensating use tax’
 16 means, in respect of any item, a tax which—

17 “(i) is imposed on the use, storage, or
 18 consumption of such item, and

19 “(ii) is complementary to a general sales
 20 tax, but only if a deduction is allowable under
 21 subsection (a) (4) in respect of items sold at
 22 retail in the taxing jurisdiction which are similar
 23 to such item.

24 “~~(E)~~ SEPARATELY STATED GENERAL SALES
 25 TAXES.—If the amount of any general sales tax is

1 separately stated, then, to the extent that the
2 amount so stated is paid by the consumer (other-
3 wise than in connection with the consumer's trade
4 or business) to his seller, such amount shall be
5 treated as a tax imposed on, and paid by, such
6 consumer.

7 “(3) STATE OR LOCAL TAXES.—A State or local
8 tax includes only a tax imposed by a State, a possession
9 of the United States, or a political subdivision of any of
10 the foregoing, or by the District of Columbia.

11 “(4) FOREIGN TAXES.—A foreign tax includes only
12 a tax imposed by the authority of a foreign country.

13 “(5) *SEPARATELY STATED GENERAL SALES*
14 *TAXES AND GASOLINE TAXES.*—If the amount of any
15 general sales tax or of any tax on the sale of gasoline,
16 diesel fuel, or other motor fuel is separately stated, then,
17 to the extent that the amount so stated is paid by the
18 consumer (otherwise than in connection with the con-
19 sumer's trade or business) to his seller, such amount shall
20 be treated as a tax imposed on, and paid by, such
21 consumer.

1 “(c) DEDUCTION DENIED IN CASE OF CERTAIN
2 TAXES.—No deduction shall be allowed for the following
3 taxes:

4 “(1) Taxes assessed against local benefits of a kind
5 tending to increase the value of the property assessed;
6 but this paragraph shall not prevent the deduction of so
7 much of such taxes as is properly allocable to mainte-
8 nance or interest charges.

9 “(2) Taxes on real property, to the extent that
10 subsection (d) requires such taxes to be treated as
11 imposed on another taxpayer.”

12 (b) TECHNICAL AMENDMENTS.—

13 (1) The first sentence of section 164 (f) (relating
14 to payments for municipal services in atomic energy
15 communities) is amended by inserting “State” before
16 “real property taxes”.

17 (2) Section 164 (g) (relating to cross references)
18 is amended to read as follows:

19 “(g) CROSS REFERENCES.—

 “(1) For provisions disallowing any deduction for the
payment of the tax imposed by subchapter B of chapter 3
(relating to tax-free covenant bonds), see section 1451.

 “(2) For provisions disallowing any deduction for cer-
tain taxes, see section 275.”

1 (3) (A) Part IX of subchapter B of chapter 1
2 (relating to items not deductible) is amended by adding
3 at the end thereof the following new section:

4 **"SEC. 275. CERTAIN TAXES.**

5 “(a) GENERAL RULE.—No deduction shall be allowed
6 for the following taxes:

7 “(1) Federal income taxes, including—

8 “(A) the tax imposed by section 3101 (re-
9 lating to the tax on employees under the Federal
10 Insurance Contributions Act) ;

11 “(B) the taxes imposed by sections 3201 and
12 3211 (relating to the taxes on railroad employees
13 and railroad employee representatives) ; and

14 “(C) the tax withheld at source on wages
15 under section 3402, and corresponding provisions of
16 prior revenue laws.

17 “(2) Federal war profits and excess profits taxes.

18 “(3) Estate, inheritance, legacy, succession, and
19 gift taxes.

20 “(4) Income, war profits, and excess profits taxes
21 imposed by the authority of any foreign country or pos-
22 session of the United States, if the taxpayer chooses to
23 take to any extent the benefits of section 901 (relating
24 to the foreign tax credit).

25 “(5) Taxes on real property, to the extent that sec-

1 tion 164 (d) requires such taxes to be treated as imposed
2 on another taxpayer.

3 “(b) CROSS REFERENCE.—

 “For disallowance of certain other taxes, see section
 164(c).”

4 (B) The table of sections for such part IX is
5 amended by adding at the end thereof the following:

 “Sec. 275. Certain taxes.”

6 (4) Paragraph (1) of section 535 (b) (relating to
7 adjustments to accumulated taxable income) is amended
8 by striking out “section 164 (b) (6)” and inserting in
9 lieu thereof “section 275 (a) (4)”.

10 (5) The first sentence of paragraph (1) of section
11 545 (b) (relating to adjustments to personal holding
12 company taxable income) is amended by striking out
13 “section 164 (b) (6)” and inserting in lieu thereof
14 “section 275 (a) (4)”.

15 (6) The first sentence of paragraph (1) of section
16 556 (b) (relating to adjustments to foreign personal
17 holding company taxable income) is amended by strik-
18 ing out “section 164 (b) (6)” and inserting in lieu
19 thereof “section 275 (a) (4)”.

20 (7) Paragraph (1) of section 901 (d) (relating
21 to credit for taxes imposed by foreign countries) is
22 amended by striking out “section 164” and inserting
23 in lieu thereof “sections 164 and 275”.

1 (8) Section 903 (relating to credit for taxes
2 imposed by a foreign country in lieu of income, etc.,
3 taxes) is amended by striking out "section 164 (b) "
4 and inserting in lieu thereof "sections 164 (a) and 275
5 (a) ".

6 ~~(c) EFFECTIVE DATE.~~—The amendments made by this
7 section shall apply to taxable years beginning after Decem-
8 ber 31, 1963.

9 (c) *EFFECTIVE DATE.*—

10 (1) *GENERAL RULE.*—*Except as provided in para-*
11 *graph (2), the amendments made by this section shall*
12 *apply to taxable years beginning after December 31,*
13 *1963.*

14 (2) *SPECIAL TAXING DISTRICTS.*—Section 164
15 (c)(1) of the Internal Revenue Code of 1954 (as
16 amended by subsection (a)) shall not prevent the deduc-
17 tion under section 164 of such Code (as so amended)
18 of taxes levied by a special taxing district which is de-
19 scribed in section 164(b)(5) of such Code (as in effect
20 for a taxable year ending on December 31, 1963) and
21 which was in existence on December 31, 1963, for the
22 purpose of retiring indebtedness existing on such date.

1 SEC. 208. PERSONAL CASUALTY AND THEFT LOSSES.

2 (a) LIMITATION ON AMOUNT OF CASUALTY OR
3 THEFT LOSS DEDUCTION.—Section 165 (c) (3) (relating
4 to losses of property not connected with trade or business)
5 is amended to read as follows:

6 “(3) losses of property not connected with a trade
7 or business, if such losses arise from fire, storm, ship-
8 wreck, or other casualty, or from theft. A loss de-
9 scribed in this paragraph shall be allowed only to the
10 extent that the amount of loss to such individual arising
11 from each casualty, or from each theft, exceeds \$100.
12 For purposes of the \$100 limitation of the preceding
13 sentence, a husband and wife making a joint return
14 under section 6013 for the taxable year in which the
15 loss is allowed as a deduction shall be treated as one
16 individual. No loss described in this paragraph shall
17 be allowed if, at the time of filing the return, such
18 loss has been claimed for estate tax purposes in the
19 estate tax return.”

20 (b) EFFECTIVE DATE.—The amendment made by sub-
21 section (a) shall apply to losses sustained after December
22 31, 1963, in taxable years ending after such date.

1 SEC. 209. CHARITABLE, ETC., CONTRIBUTIONS AND GIFTS.

2 (a) CERTAIN ORGANIZATIONS ADDED TO ADDITIONAL
3 10-PERCENT CHARITABLE LIMITATION.—Section 170 (b)

4 (1) (A) (relating to limitation on amount of deduction for
5 charitable contributions by individuals) is amended by strik-
6 ing out “or” at the end of clause (iii), and by inserting after
7 clause (iv) the following new clauses:

8 “(v) a governmental unit referred to in
9 subsection (c) (1), or

10 “(vi) an organization referred to in sub-
11 section (c) (2) which normally receives a sub-
12 stantial part of its support (exclusive of income
13 received in the exercise or performance by such
14 organization of its charitable, educational, or
15 other purpose or function constituting the basis
16 for its exemption under section 501 (a)) from a
17 governmental unit referred to in subsection (c)
18 (1) or from direct or indirect contributions from
19 the general public.”.

20 (b) LIMITATION OF UNLIMITED CHARITABLE CON-
21 TRIBUTION DEDUCTION.—Section 170(b)(1) (relating to
22 limitations on amount of deduction for charitable contributions
23 by individuals) is amended by redesignating subparagraph
24 (D) as subparagraph (E) and by inserting after subpara-
25 graph (C) the following new subparagraph:

1 “(D) APPLICATION OF SUBPARAGRAPH (C)
2 FOR TAXABLE YEARS BEGINNING AFTER DECEM-
3 BER 31, 1963.—If the taxable year begins after De-
4 cember 31, 1963—

5 “(i) subparagraph (C) shall apply only
6 if the taxpayer so elects (at such time and in such
7 manner as the Secretary or his delegate by
8 regulations prescribes), and

9 “(ii) for purposes of subparagraph (C),
10 the amount of the charitable contributions
11 for the taxable year (and for all prior tax-
12 able years beginning after December 31,
13 1963) shall be determined without the applica-
14 tion of paragraph (5) and solely by reference
15 to charitable contributions described in sub-
16 paragraph (A).

17 If the taxpayer elects to have subparagraph (C)
18 apply for the taxable year, then for such taxable
19 year subsection (a) shall apply only with respect
20 to charitable contributions described in subpara-
21 graph (A), and no amount of charitable contribu-
22 tions made in the taxable year or any prior taxable
23 year may be treated under paragraph (5) as hav-
24 ing been made in the taxable year or in any suc-
25 ceeding taxable year.”

1 *(c) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE*
 2 *CONTRIBUTIONS MADE BY INDIVIDUALS.—*

3 *(1) IN GENERAL.—Section 170(b) (relating to*
 4 *limitations on amount of deduction for charitable con-*
 5 *tribution) is amended by adding at the end thereof the*
 6 *following new paragraph:*

7 *“(5) CARRYOVER OF CERTAIN EXCESS CONTRI-*
 8 *BUTIONS BY INDIVIDUALS.—*

9 *“(A) In the case of an individual, if the amount*
 10 *of charitable contributions described in paragraph*
 11 *(1)(A) payment of which is made within a taxable*
 12 *year (hereinafter in this paragraph referred to as*
 13 *the ‘contribution year’) beginning after December*
 14 *31, 1963, exceeds 30 percent of the taxpayer’s*
 15 *adjusted gross income for such year (computed*
 16 *without regard to any net operating loss carryback to*
 17 *such year under section 172), such excess shall be*
 18 *treated as a charitable contribution described in para-*
 19 *graph (1)(A) paid in each of the 5 succeeding tax-*
 20 *able years in order of time, but, with respect to any*
 21 *such succeeding taxable year, only to the extent of*
 22 *the lesser of the two following amounts:*

23 *“(i) the amount by which 30 percent of*
 24 *the taxpayer’s adjusted gross income for such*
 25 *succeeding taxable year (computed without re-*

1 *gard to any net operating loss carryback to*
2 *such succeeding taxable year under section 172)*
3 *exceeds the sum of the charitable contributions*
4 *described in paragraph (1)(A) payment of*
5 *which is made by the taxpayer within such suc-*
6 *ceeding taxable year (determined without regard*
7 *to this subparagraph) and the charitable contri-*
8 *butions described in paragraph (1)(A) pay-*
9 *ment of which was made in taxable years (be-*
10 *ginning after December 31, 1963) before the*
11 *contribution year which are treated under this*
12 *subparagraph as having been paid in such suc-*
13 *ceeding taxable year; or*

14 *“(ii) in the case of the first succeeding tax-*
15 *able year, the amount of such excess, and in the*
16 *case of the second, third, fourth, or fifth succeed-*
17 *ing taxable year, the portion of such excess not*
18 *treated under this subparagraph as a charitable*
19 *contribution described in paragraph (1)(A)*
20 *paid in any intervening year between the con-*
21 *tribution year and such succeeding taxable year.*

22 *“(B) In applying subparagraph (A), the*
23 *excess determined under subparagraph (A) for the*
24 *contribution year shall be reduced to the extent that*
25 *such excess reduces taxable income (as computed for*

1 *purposes of the second sentence of section 172(b)*
 2 *(2)) and increases the net operating loss deduction*
 3 *for a taxable year succeeding the contribution year."*

4 (2) *TECHNICAL AMENDMENTS.—Sections 545*
 5 *(b)(2) (relating to deductions for charitable contribu-*
 6 *tions by personal holding companies) and 556(b)(2)*
 7 *(relating to deductions for charitable contributions by*
 8 *foreign personal holding companies) are each amended*
 9 *by striking out "section 170(b)(2)" and inserting in*
 10 *lieu thereof "section 170(b) (2) and (5)".*

11 ~~(b)~~ (d) 5-YEAR CARRYOVER OF CERTAIN CHARITABLE
 12 CONTRIBUTIONS MADE BY CORPORATIONS.—

13 (1) IN GENERAL.—Section 170(b)(2) (relating
 14 to limitation on amount of deduction for charitable con-
 15 tributions by corporations) is amended by striking out
 16 the sentence following subparagraph (D) and inserting
 17 in lieu thereof the following:

18 "Any contribution made by a corporation in a taxable
 19 year (hereinafter in this sentence referred to as the
 20 'contribution year') in excess of the amount deductible
 21 for such year under the preceding sentence shall be
 22 deductible for each of the 5 succeeding taxable years
 23 in order of time, but only to the extent of the lesser of
 24 the two following amounts: (i) the excess of the maxi-
 25 mum amount deductible for such succeeding taxable year

1 under the preceding sentence over the sum of the con-
 2 tributions made in such year plus the aggregate of the
 3 excess contributions which were made in taxable years
 4 before the contribution year and which are deductible un-
 5 der this sentence for such succeeding taxable year; or
 6 (ii) in the case of the first succeeding taxable year, the
 7 amount of such excess contribution, and in the case of
 8 the second, third, fourth, or fifth succeeding taxable
 9 years, the portion of such excess contribution not de-
 10 ductible under this sentence for any taxable year inter-
 11 vening between the contribution year and such succeed-
 12 ing taxable year.”

13 (2) CARRYOVERS IN CERTAIN CORPORATE ACQUI-
 14 SITIONS.—Paragraph (19) of section 381 (c) (relating
 15 to items of distributor or transferor corporation) is
 16 amended to read as follows:

17 “(19) CHARITABLE CONTRIBUTIONS IN EXCESS
 18 OF PRIOR YEARS’ LIMITATIONS.—Contributions made
 19 in the taxable year ending on the date of distribution or
 20 transfer and the 4 prior taxable years by the distributor
 21 or transferor corporation in excess of the amount de-
 22 ductible under section 170 (b) (2) for such taxable
 23 years shall be deductible by the acquiring corporation
 24 for its taxable years which begin after the date of dis-
 25 tribution or transfer, subject to the limitations imposed

1 in section 170 (b) (2). In applying the preceding
 2 sentence, each taxable year of the distributor or trans-
 3 feror corporation beginning on or before the date of
 4 distribution or transfer shall be treated as a prior taxable
 5 year with reference to the acquiring corporation's tax-
 6 able years beginning after such date."

7 ~~(e)~~ (e) FUTURE INTERESTS IN TANGIBLE PERSONAL
 8 PROPERTY.—Section 170 (relating to charitable, etc., con-
 9 tributions and gifts) is amended by redesignating subsections
 10 (f) and (g) as subsections (g) and (h), respectively, and
 11 by inserting after subsection (e) the following new sub-
 12 section:

13 " (f) FUTURE INTERESTS IN TANGIBLE PERSONAL
 14 PROPERTY.—For purposes of this section, payment of a
 15 charitable contribution which consists of a future interest in
 16 tangible personal property shall be treated as made only
 17 when all intervening interests in, and rights to the actual
 18 possession or enjoyment of, the property have expired or are
 19 held by persons other than the taxpayer or those standing
 20 in a relationship to the taxpayer described in section 267
 21 (b). For purposes of the preceding sentence, a fixture
 22 which is intended to be severed from the real property shall
 23 be treated as tangible personal property. This subsection
 24 shall not apply to any charitable contribution where—

1 ~~“(1) the sole intervening interest or right is a non-~~
 2 ~~transferable life interest reserved by the donor, or~~

3 ~~“(2) in the case of a joint gift by husband and~~
 4 ~~wife, the sole intervening interest or right is a non-~~
 5 ~~transferable life interest reserved by the donors which~~
 6 ~~expires not later than the death of whichever of such~~
 7 ~~donors dies later.~~

8 For purposes of the preceding sentence, a right to make an
 9 earlier transfer of the reserved life interest to the donee of
 10 the future interest shall not be treated as making a life inter-
 11 est transferable.”

12 ~~(d) EFFECTIVE DATES.—~~The amendments made by
 13 ~~subsections (a) and (b) shall apply with respect to con-~~
 14 ~~tributions which are paid (or treated as paid under section~~
 15 ~~170(a)(2) of the Internal Revenue Code of 1954) in tax-~~
 16 ~~able years beginning after December 31, 1963. The amend-~~
 17 ~~ments made by subsection (c) shall apply to transfers of~~
 18 ~~future interests made after December 31, 1963, in taxable~~
 19 ~~years ending after such date.~~

20 (f) *EFFECTIVE DATES.—*

21 (1) *The amendments made by subsections (a),*
 22 *(b), and (c), shall apply with respect to contribu-*
 23 *tions which are paid in taxable years beginning after*
 24 *December 31, 1963.*

1 (2) *The amendments made by subsection (d) shall*
 2 *apply to taxable years beginning after December 31,*
 3 *1963, with respect to contributions which are paid*
 4 *(or treated as paid under section 170(a)(2) of*
 5 *the Internal Revenue Code of 1954) in taxable years*
 6 *beginning after December 31, 1961.*

7 (3) *The amendments made by subsection (e) shall*
 8 *apply to transfers of future interests made after Decem-*
 9 *ber 31, 1963, in taxable years ending after such date.*

10 **SEC. 210. LOSSES ARISING FROM EXPROPRIATION OF**
 11 **PROPERTY BY GOVERNMENTS OF FOREIGN**
 12 **COUNTRIES.**

13 (a) **NET OPERATING LOSS CARRYOVER.**—Section
 14 172 (relating to net operating loss deduction) is amended—

15 (1) by striking out “Except as provided in clause
 16 (ii)” in subsection (b)(1)(A)(i) and inserting in lieu
 17 thereof “Except as provided in clause (ii) and in sub-
 18 paragraph (D)”;

19 (2) by striking out “Except as provided in sub-
 20 paragraph (C)” in subsection (b)(1)(B) and insert-
 21 ing in lieu thereof “Except as provided in subparagraphs
 22 (C) and (D)”;

23 (3) by adding at the end of subsection (b)(1) the
 24 following new subparagraph:

25 “(D) In the case of a taxpayer which has a

1 *foreign expropriation loss (as defined in subsection*
 2 *(k)) for any taxable year ending after December*
 3 *31, 1958, the portion of the net operating loss for*
 4 *such year attributable to such foreign expropriation*
 5 *loss shall not be a net operating loss carryback to*
 6 *any taxable year preceding the taxable year of such*
 7 *loss and shall be a net operating loss carryover to*
 8 *each of the 10 taxable years following the taxable*
 9 *year of such loss.”;*

10 *(4) by adding at the end of subsection (b)(3) the*
 11 *following new subparagraphs:*

12 *“(C) Paragraph (1)(D) shall apply only if—*

13 *“(i) the foreign expropriation loss (as de-*
 14 *fined in subsection (k)) for the taxable year*
 15 *equals or exceeds 50 percent of the net operating*
 16 *loss for the taxable year,*

17 *“(ii) in the case of a foreign expropriation*
 18 *loss for a taxable year ending after December*
 19 *31, 1963, the taxpayer elects (at such time and*
 20 *in such manner as the Secretary or his delegate*
 21 *by regulations prescribes) to have paragraph*
 22 *(1)(D) apply, and*

23 *“(iii) in the case of a foreign expropriation*
 24 *loss for a taxable year ending after December*
 25 *31, 1958, and before January 1, 1964, the tax-*

1 *payer elects (in such manner as may be pre-*
2 *scribed by the Secretary or his delegate) on or*
3 *before December 31, 1965, to have paragraph*
4 *(1)(D) apply.*

5 *“(D) If a taxpayer makes an election under*
6 *subparagraph (C)(iii), then (notwithstanding any*
7 *law or rule of law), with respect to any taxable*
8 *year ending before January 1, 1964, affected by the*
9 *election—*

10 *“(i) the time for making or changing any*
11 *choice or election under subpart A of part III of*
12 *subchapter N (relating to foreign tax credit)*
13 *shall not expire before January 1, 1966,*

14 *“(ii) any deficiency attributable to the elec-*
15 *tion under subparagraph (C)(iii) or to the ap-*
16 *plication of clause (i) of this subparagraph may*
17 *be assessed at any time before January 1, 1969,*
18 *and*

19 *“(iii) refund or credit of any overpayment*
20 *attributable to the election under subparagraph*
21 *(C)(iii) or to the application of clause (i) of*
22 *this subparagraph may be made or allowed if*
23 *claim therefor is filed before January 1,*
24 *1969.”;*

1 (5) by redesignating subsection (k) as (l), and by
 2 inserting after subsection (j) the following new sub-
 3 section:

4 “(k) *FOREIGN EXPROPRIATION LOSS DEFINED.*—

5 *For purposes of subsection (b)—*

6 “(1) The term ‘foreign expropriation loss’ means,
 7 for any taxable year, the sum of the losses sustained with
 8 respect to property by reason of the expropriation, inter-
 9 vention, seizure, or similar taking of such property by
 10 the government of any foreign country, any political sub-
 11 division thereof, or any agency or instrumentality of the
 12 foregoing.

13 “(2) The portion of the net operating loss for such
 14 year attributable to a foreign expropriation loss is the
 15 amount of the foreign expropriation loss for such year
 16 (but not in excess of the net operating loss for such
 17 year).”

18 (b) *TECHNICAL AMENDMENTS.*—Section 172(b)(2)
 19 is amended—

20 (1) by striking out subparagraph (B) and insert-
 21 ing in lieu thereof the following:

22 “(B) by determining the amount of the net
 23 operating loss deduction—

1 “(i) without regard to the net operating
2 loss for the loss year or for any taxable year
3 thereafter, and

4 “(ii) without regard to that portion, if any,
5 of a net operating loss for a taxable year at-
6 tributable to a foreign expropriation loss, if
7 such portion may not, under paragraph (1)
8 (D), be carried back to such prior taxable
9 year.”; and

10 (2) by adding at the end thereof the following new
11 sentence: "For purposes of this paragraph, if a portion of
12 the net operating loss for the loss year is attributable to a
13 foreign expropriation to which paragraph (1)(D) ap-
14 plies, such portion shall be considered to be a separate net
15 operating loss for such year to be applied after the other
16 portion of such net operating loss."

17 (c) *EFFECTIVE DATE.*—The amendments made by this
18 section shall apply in respect of foreign expropriation losses
19 (as defined in section 172(k) of the Internal Revenue Code
20 of 1954, as amended by subsection (a)(5) of this section),
21 sustained in taxable years ending after December 31, 1958.

22 SEC. 211. ONE-PERCENT LIMITATION ON MEDICINE
23 AND DRUGS.

24 (a) GENERAL RULE.—Subsection (b) of section 213
25 (relating to medical, dental, etc., expenses) is amended by

1 adding at the end thereof the following new sentence: "The
 2 preceding sentence shall not apply to amounts paid for the
 3 care of—

4 " (1) the taxpayer and his spouse, if either of them
 5 has attained the age of 65 before the close of the taxa-
 6 ble year, or

7 " (2) any dependent described in subsection (a)
 8 (1) (A)."

9 (b) **EFFECTIVE DATE.**—The amendment made by sub-
 10 section (a) shall apply to taxable years beginning after
 11 December 31, 1963.

12 **SEC. ~~211~~ 212. CARE OF DEPENDENTS.**

13 (a) **CHILD CARE ALLOWANCE.**—Section 214 (relating
 14 to expenses for care of certain dependents) is amended to
 15 read as follows:

16 **"SEC. 214. EXPENSES FOR CARE OF CERTAIN DEPENDENTS.**

17 "(a) **GENERAL RULE.**—There shall be allowed as a
 18 deduction expenses paid during the taxable year by a tax-
 19 payer who is a woman or widower, or is a husband whose
 20 wife is incapacitated or is institutionalized, for the care of one
 21 or more dependents (as defined in subsection (d) (1)), but
 22 only if such care is for the purpose of enabling the taxpayer
 23 to be gainfully employed.

1 “(b) LIMITATIONS.—

2 “(1) DOLLAR LIMIT.—

3 “(A) Except as provided in subparagraph
4 (B), the deduction under subsection (a) shall not
5 exceed \$600 for any taxable year.

6 ~~“(B) The \$600 limit of subparagraph (A)~~
7 ~~shall be increased (to an amount not above \$900)~~
8 ~~by the amount of expenses incurred by the taxpayer~~
9 ~~for any period during which—~~

10 ~~“(i) the taxpayer had 2 or more depend-~~
11 ~~ents, and~~

12 ~~“(ii) paragraph (2) does not apply.~~

13 “(B) The \$600 limit of subparagraph (A)—

14 “(i) shall be increased (to an amount not
15 above \$900) by the amount of expenses incurred
16 by the taxpayer for any period during which
17 the taxpayer had 2 dependents, and

18 “(ii) shall be increased (to an amount not
19 above \$1,000) by the amount of expenses in-
20 curred by the taxpayer for any period during
21 which the taxpayer had 3 or more dependents.

22 ~~“(2) WORKING WIVES.—In the case of a woman~~
23 ~~who is married, the deduction under subsection (a)—~~

1 ~~“(A) shall not be allowed unless she files a~~
 2 ~~joint return with her husband for the taxable year,~~
 3 ~~and~~

4 ~~“(B) shall be reduced by the amount (if any)~~
 5 ~~by which the adjusted gross income of the taxpayer~~
 6 ~~and her spouse exceeds \$4,500.~~

7 This paragraph shall not apply to expenses incurred
 8 while the taxpayer's husband is incapable of self-support
 9 because mentally or physically defective.

10 ~~“(3) HUSBANDS WITH INCAPACITATED WIVES.—~~

11 In the case of a husband whose wife is incapacitated,
 12 the deduction under subsection (a)—

13 ~~“(A) shall not be allowed unless he files a~~
 14 ~~joint return with his wife for the taxable year, and~~

15 ~~“(B) shall be reduced by the amount (if any)~~
 16 ~~by which the adjusted gross income of the taxpayer~~
 17 ~~and his spouse exceeds \$4,500.~~

18 This paragraph shall not apply to expenses incurred
 19 while the taxpayer's wife is institutionalized if such in-
 20 stitutionalization is for a period of at least 90 consecutive
 21 days (whether or not within one taxable year) or a
 22 shorter period if terminated by her death.

23 ~~“(2) WORKING WIVES AND HUSBANDS WITH IN-~~

1 *CAPACITATED WIVES.*—*In the case of a woman who is*
 2 *married and in the case of a husband whose wife is*
 3 *incapacitated, the deduction under subsection (a)—*

4 *“(A) shall not be allowed unless the taxpayer*
 5 *and his spouse file a joint return for the taxable*
 6 *year, and*

7 *“(B) shall be reduced by the amount (if any)*
 8 *by which the adjusted gross income of the taxpayer*
 9 *and his spouse exceeds \$7,000.*

10 *This paragraph shall not apply, in the case of a woman*
 11 *who is married, to expenses incurred while her husband*
 12 *is incapable of self-support because mentally or physi-*
 13 *cally defective, or, in the case of a husband whose wife*
 14 *is incapacitated, to expenses incurred while his wife*
 15 *is institutionalized if such institutionalization is for a*
 16 *period of at least 90 consecutive days (whether or not*
 17 *within one taxable year) or a shorter period if termi-*
 18 *nated by her death.*

19 ~~“(4)~~ (3) *CERTAIN PAYMENTS NOT TAKEN INTO*
 20 *ACCOUNT.*—*Subsection (a) shall not apply to any*
 21 *amount paid to an individual with respect to whom the*
 22 *taxpayer is allowed for his taxable year a deduction un-*
 23 *der section 151 (relating to deductions for personal*
 24 *exemptions).*

1 “(c) SPECIAL RULE WHERE WIFE IS INCAPACI-
 2 TATED OR INSTITUTIONALIZED.—In the case of a husband
 3 whose wife is incapacitated or is institutionalized, the deduc-
 4 tion under subsection (a) shall be allowed only for expenses
 5 incurred while the wife was incapacitated or institutionalized
 6 (as the case may be) for a period of at least 90 consecutive
 7 days (whether or not within one taxable year) or a shorter
 8 period if terminated by her death.

9 “(d) DEFINITIONS.—For purposes of this section—

10 “(1) DEPENDENT.—The term ‘dependent’ means a
 11 person with respect to whom the taxpayer is entitled to
 12 an exemption under section 151 (e) (1) —

13 “(A) who has not attained the age of 13 years
 14 and who (within the meaning of section 152) is a
 15 son, stepson, daughter, or stepdaughter of the tax-
 16 payer; or

17 “(B) who is physically or mentally incapable
 18 of caring for himself.

19 “(2) WIDOWER.—The term ‘widower’ includes an
 20 unmarried individual who is legally separated from his
 21 spouse under a decree of divorce or of separate mainte-
 22 nance.

23 “(3) INCAPACITATED WIFE.—A wife shall be con-

1 sidered incapacitated only (A) while she is incapable of
 2 caring for herself because mentally or physically defec-
 3 tive, or (B) while she is institutionalized.

4 “(4) INSTITUTIONALIZED WIFE.—A wife shall be
 5 considered institutionalized only while she is, for the
 6 purpose of receiving medical care or treatment, an
 7 inpatient, resident, or inmate of a public or private hos-
 8 pital, sanitarium, or other similar institution.

9 “(5) DETERMINATION OF STATUS.—A woman
 10 shall not be considered as married if—

 “(A) she is legally separated from her spouse
 2 under a decree of divorce or of separate maintenance
 13 at the close of the taxable year, or

14 “(B) she has been deserted by her spouse, does
 15 not know his whereabouts (and has not known his
 16 whereabouts at any time during the taxable year),
 17 and has applied to a court of competent jurisdiction
 18 for appropriate process to compel him to pay support
 19 or otherwise to comply with the law or a judicial
 20 order, as determined under regulations prescribed by
 21 the Secretary or his delegate.”

22 (b) EFFECTIVE DATE.—The amendment made by sub-
 23 section (a) shall apply to taxable years beginning after
 24 December 31, 1963.

1 **SEC. 212. 213. MOVING EXPENSES.**

2 (a) **DEDUCTION ALLOWED FOR MOVING EXPENSES.—**

3 (1) Part VII of subchapter B of chapter 1 (relat-
4 ing to additional itemized deductions for individuals) is
5 amended by redesignating section 217 as section 219 and
6 by inserting after section 216 the following new section:

7 **“SEC. 217. MOVING EXPENSES.**

8 “(a) **DEDUCTION ALLOWED.**—There shall be allowed
9 as a deduction moving expenses paid or incurred during the
10 taxable year in connection with the commencement of work
11 by the taxpayer as an employee at a new principal place of
12 work.

13 “(b) **DEFINITION OF MOVING EXPENSES.—**

14 “(1) **IN GENERAL.**—For purposes of this section,
15 the term ‘moving expenses’ means only the reasonable
16 expenses—

17 “(A) of moving household goods and personal
18 effects from the former residence to the new resi-
19 dence, and

20 “(B) of traveling (including meals and lodg-
21 ing) from the former residence to the new place
22 of residence.

23 “(2) **INDIVIDUALS OTHER THAN TAXPAYER.**—In
24 the case of any individual other than the taxpayer, ex-

1 penses referred to in paragraph (1) shall be taken into
2 account only if such individual has both the former resi-
3 dence and the new residence as his principal place of
4 abode and is a member of the taxpayer's household.

5 “(c) CONDITIONS FOR ALLOWANCE.—No deduction
6 shall be allowed under this section unless—

7 “(1) the taxpayer's new principal place of work—

8 “(A) is at least 20 miles farther from his for-
9 mer residence than was his former principal place
10 of work, or

11 “(B) if he had no former principal place of
12 work, is at least 20 miles from his former residence,
13 and

14 “(2) during the 12-month period immediately fol-
15 lowing his arrival in the general location of his new
16 principal place of work, the taxpayer is a full-time em-
17 ployee, in such general location, during at least 39
18 weeks.

19 “(d) RULES FOR APPLICATION OF SUBSECTION
20 (c) (2).—

21 “(1) Subsection (c) (2) shall not apply to any
22 item to the extent that the taxpayer receives reim-
23 bursement or other expense allowance from his employer
24 for such item.

25 “(2) If a taxpayer has not satisfied the condition

1 of subsection (c) (2) before the time prescribed by law
 2 (including extensions thereof) for filing the return for
 3 the taxable year during which he paid or incurred mov-
 4 ing expenses which would otherwise be deductible under
 5 this section, but may still satisfy such condition, then
 6 such expenses may (at the election of the taxpayer) be
 7 deducted for such taxable year notwithstanding subsec-
 8 tion (c) (2).

9 “(3) If—

10 “(A) for any taxable year moving expenses
 11 have been deducted in accordance with the rule
 12 provided in paragraph (2), and

13 “(B) the condition of subsection (c) (2) is
 14 not satisfied by the close of the subsequent taxable
 15 year,

16 then an amount equal to the expenses which were so
 17 deducted shall be included in gross income for such sub-
 18 sequent taxable year.

19 “(e) DISALLOWANCE OF DEDUCTION WITH RESPECT
 20 TO REIMBURSEMENTS NOT INCLUDED IN GROSS INCOME.—

21 No deduction shall be allowed under this section for any item
 22 to the extent that the taxpayer receives reimbursement or
 23 other expense allowance for such item which is not in-
 24 cluded in his gross income.

25 “(f) REGULATIONS.—The Secretary or his delegate

1 shall prescribe such regulations as may be necessary to carry
2 out the purposes of this section.”

3 (2) The table of sections for part VII of subchapter
4 B of chapter 1 is amended by striking out—

“Sec. 217. Cross references.”

5 and inserting in lieu thereof the following:

“Sec. 217. Moving expenses.

~~“Sec. 218. Certain contributions by employees for group-~~
~~term life insurance.~~

*“Sec. 218. Contributions to political candidates and political
committees.*

“Sec. 219. Cross references.”

6 (b) ADJUSTED GROSS INCOME.—Section 62 (defining
7 adjusted gross income) is amended by inserting after para-
8 graph (7) the following new paragraph:

9 “(8) MOVING EXPENSE DEDUCTION.—The deduc-
10 tion allowed by section 217.”

11 (c) WITHHOLDING.—Section 3401 (a) (relating to
12 definition of “wages”) is amended by adding after paragraph
13 (14) (added by section ~~203(e)~~ 204(b) of this Act) the
14 following new paragraph:

15 “(15) to or on behalf of an employee if (and to the
16 extent that) at the time of the payment of such remuner-
17 ation it is reasonable to believe that a corresponding
18 deduction is allowable under section 217.”

19 (d) EFFECTIVE DATES.—The amendments made by
20 subsections (a) and (b) shall apply to expenses incurred
21 after December 31, 1963, in taxable years ending after such

1 date. The amendment made by subsection (c) shall apply
 2 with respect to remuneration paid after ~~December 31, 1963~~
 3 *the seventh day following the date of enactment of this Act.*

4 **SEC. 214. DEDUCTION FOR POLITICAL CONTRIBUTIONS.**

5 *(a) ALLOWANCE OF DEDUCTION.—Part VII of sub-*
 6 *chapter B of chapter 1 (relating to additional itemized de-*
 7 *ductions for individuals) is amended by inserting after sec-*
 8 *tion 217 (as added by section 213(a)(1) of this Act) the*
 9 *following new section:*

10 **“SEC. 218. CONTRIBUTIONS TO POLITICAL CANDIDATES**
 11 **AND POLITICAL COMMITTEES.**

12 *“(a) ALLOWANCE OF DEDUCTION.—In the case of*
 13 *an individual, there shall be allowed as a deduction any*
 14 *political contribution payment of which is made by the tax-*
 15 *payer within the taxable year.*

16 *“(b) LIMITATIONS.—*

17 *“(1) AMOUNT.—The deduction under subsection*
 18 *(a) shall not exceed \$50 for any taxable year, except*
 19 *that, in the case of a joint return of a husband and wife*
 20 *under section 6013 for the taxable year, the deduction*
 21 *shall not exceed \$100 for the taxable year.*

22 *“(2) VERIFICATION.—The deduction under sub-*
 23 *section (a) shall be allowed, with respect to any political*
 24 *contribution, only if such political contribution is verified*
 25 *in such manner as the Secretary or his delegate shall*
 26 *prescribe by regulations.*

1 “(c) *POLITICAL CONTRIBUTION DEFINED.*—For pur-
 2 poses of this section, the term ‘political contribution’ means
 3 a contribution or gift to—

4 “(1) any political candidate, or

5 “(2) any political committee,

6 but only if such contribution or gift is made to further the
 7 candidacy of one or more individuals in a general, special,
 8 or primary election or a convention of a political party.

9 “(d) *CROSS REFERENCE.*—

“For disallowance of deduction to estates and trusts, see sec-
 tion 642 (i).”

10 (b) *TECHNICAL AMENDMENT.*—Section 642 (relating
 11 to special rules for credits and deductions of estates and
 12 trusts) is amended by redesignating subsection (i) as sub-
 13 section (j), and by inserting after subsection (h) the follow-
 14 ing new subsection:

15 “(i) *POLITICAL CONTRIBUTIONS.*—An estate or trust
 16 shall not be allowed the deduction for political contributions
 17 provided by section 218.”

18 (c) *EFFECTIVE DATE.*—The amendments made by this
 19 section shall apply only with respect to contributions or gifts
 20 made on or after the date of the enactment of this Act in tax-
 21 able years ending after such date.

1 **SEC. 215. 100 PERCENT DIVIDENDS RECEIVED DEDUCTION**
 2 **FOR MEMBERS OF ELECTING AFFILIATED**
 3 **GROUPS.**

4 (a) 100 PERCENT DIVIDENDS RECEIVED DEDUC-
 5 TION.—Section 243 (relating to dividends received by cor-
 6 porations) is amended to read as follows:

7 “SEC. 243. DIVIDENDS RECEIVED BY CORPORATIONS.

8 “(a) GENERAL RULE.—In the case of a corporation,
 9 there shall be allowed as a deduction an amount equal to
 10 the following percentages of the amount received as divi-
 11 dends from a domestic corporation which is subject to taxa-
 12 tion under this chapter:

13 “(1) 85 percent, in the case of dividends other
 14 than dividends described in paragraph (2) or (3);

15 “(2) 100 percent, in the case of dividends re-
 16 ceived by a small business investment company operat-
 17 ing under the Small Business Investment Act of 1958;
 18 and

19 “(3) 100 percent, in the case of qualifying divi-
 20 dends (as defined in subsection (b)(1)).

21 “(b) QUALIFYING DIVIDENDS.—

22 “(1) DEFINITION.—For purposes of subsection
 23 (a)(3), the term ‘qualifying dividends’ means dividends
 24 received by a corporation which, at the close of the day
 25 the dividends are received, is a member of the same

1 *affiliated group of corporations (as defined in paragraph*
2 *(5)) as the corporation distributing the dividends, if—*

3 *“(A) such affiliated group has made an elec-*
4 *tion under paragraph (2) which is effective for*
5 *the taxable years of its members which include*
6 *such day, and*

7 *“(B) such dividends are distributed out of*
8 *earnings and profits of a taxable year of the dis-*
9 *tributing corporation ending after December 31,*
10 *1963—*

11 *“(i) on each day of which the distribut-*
12 *ing corporation and the corporation receiving*
13 *the dividends were members of such affiliated*
14 *group, and*

15 *“(ii) for which an election under section*
16 *1562 (relating to election of multiple surtax*
17 *exemptions) is not effective.*

18 *“(2) ELECTION.—An election under this para-*
19 *graph shall be made for an affiliated group by the com-*
20 *mon parent corporation, and shall be made for any tax-*
21 *able year of the common parent corporation at such*
22 *time and in such manner as the Secretary or his dele-*
23 *gate by regulations prescribes. Such election may*
24 *not be made for an affiliated group for any taxable year*
25 *of the common parent corporation for which an election*

1 under section 1562 is effective. Each corporation which
2 is a member of such group at any time during its tax-
3 able year which includes the last day of such taxable
4 year of the common parent corporation must consent
5 to such election at such time and in such manner as the
6 Secretary or his delegate by regulations prescribes.
7 An election under this paragraph shall be effective—

8 “(A) for the taxable year of each member of
9 such affiliated group which includes the last day of
10 the taxable year of the common parent corporation
11 with respect to which the election is made (except
12 that in the case of a taxable year of a member be-
13 ginning in 1963 and ending in 1964, if the election
14 is effective for the taxable year of the common par-
15 ent corporation which includes the last day of such
16 taxable year of such member, such election shall be
17 effective for such taxable year of such member, if
18 such member consents to such election with respect
19 to such taxable year), and

20 “(B) for the taxable year of each member of
21 such affiliated group which ends after the last day of
22 such taxable year of the common parent corpora-
23 tion but which does not include such date, unless
24 the election is terminated under paragraph (4).

25 “(3) EFFECT OF ELECTION.—If an election by an

1 *affiliated group is effective with respect to a taxable year*
2 *of the common parent corporation, then under regula-*
3 *tions prescribed by the Secretary or his delegate—*

4 *“(A) no member of such affiliated group may*
5 *consent to an election under section 1562 for such*
6 *taxable year.*

7 *“(B) the members of such affiliated group shall*
8 *be treated as one taxpayer for purposes of making*
9 *the elections under section 901(a) (relating to al-*
10 *lowance of foreign tax credit) and section 904(b)*
11 *(1)) relating to election of overall limitation), and*

12 *“(C) the members of such affiliated group shall*
13 *be limited to one—*

14 *“(i) \$100,000 minimum accumulated*
15 *earnings credit under section 535(c) (2) or*
16 *(3),*

17 *“(ii) \$100,000 limitation for explora-*
18 *tion expenditures under section 615 (a) and*
19 *(b),*

20 *“(iii) \$400,000 limitation for exploration*
21 *expenditures under section 615(c) (1),*

22 *“(iv) \$25,000 limitation on small business*
23 *deduction of life insurance companies under*
24 *sections 804(a)(4) and 809(d)(10), and*

25 *“(v) \$100,000 exemption for purposes of*

1 *estimated tax filing requirements under section*
2 *6016 and the addition to tax under section*
3 *6655 for failure to pay estimated tax.*

4 “(4) *TERMINATION.*—*An election by an affiliated*
5 *group under paragraph (2) shall terminate with respect*
6 *to the taxable year of the common parent corporation*
7 *and with respect to the taxable years of the members*
8 *of such affiliated group which include the last day of*
9 *such taxable year of the common parent corporation if—*

10 “(A) *CONSENT OF MEMBERS.*—*Such affiliated*
11 *group files a termination of such election (at such*
12 *time and in such manner as the Secretary or his*
13 *delegate by regulations prescribes) with respect*
14 *to such taxable year of the common parent corpora-*
15 *tion, and each corporation which is a member of*
16 *such affiliated group at any time during its taxable*
17 *year which includes the last day of such taxable*
18 *year of the common parent corporation consents to*
19 *such termination, or*

20 “(B) *REFUSAL BY NEW MEMBER TO CON-*
21 *SENT.*—*During such taxable year of the common*
22 *parent corporation such affiliated group includes a*
23 *member which—*

24 “(i) *was not a member of such group*
25 *during such common parent corporation’s im-*
26 *mediately preceding taxable year, and*

1 “(ii) such member files a statement that
 2 it does not consent to the election at such time
 3 and in such manner as the Secretary or his
 4 delegate by regulations prescribes.

5 “(5) DEFINITION OF AFFILIATED GROUP.—For
 6 purposes of this subsection, the term ‘affiliated group’ has
 7 the meaning assigned to it by section 1504(a), except
 8 that for such purposes sections 1504(b)(2) and 1504(c)
 9 shall not apply.

10 “(6) SPECIAL RULES FOR INSURANCE COMPA-
 11 NIES.—If an election under this subsection is effective for
 12 the taxable year of an insurance company subject to tax-
 13 ation under section 802 or 821—

14 “(A) part II of subchapter B of chapter 6 (re-
 15 lating to certain controlled corporations) shall be
 16 applied without regard to section 1563(a)(4) (re-
 17 lating to certain insurance companies) and section
 18 1563(b)(2)(D) (relating to certain excluded mem-
 19 bers) with respect to such company and the other
 20 corporations which are members of the controlled
 21 group of corporations (as determined under section
 22 1563 without regard to subsections (a)(4) and
 23 (b)(2)(D)) of which such company is a member,
 24 and

25 “(B) for purposes of paragraph (1), a distri-
 26 bution by such company out of earnings and profits of

1 *a taxable year for which an election under this sub-*
 2 *section was not effective, and for which such company*
 3 *was not a component member of a controlled group of*
 4 *corporations within the meaning of section 1563*
 5 *solely by reason of section 1563(b)(2)(D), shall*
 6 *not be a qualifying dividend.*

7 (c) *SPECIAL RULES FOR CERTAIN DISTRIBUTIONS.—For purposes of subsection (a)—*

9 “(1) *Any amount allowed as a deduction under*
 10 *section 591 (relating to deduction for dividends paid*
 11 *by mutual savings banks, etc.) shall not be treated as*
 12 *a dividend.*

13 “(2) *A dividend received from a regulated invest-*
 14 *ment company shall be subject to the limitations pre-*
 15 *scribed in section 854.*

16 “(3) *Any dividend received from a real estate*
 17 *investment trust which, for the taxable year of the trust*
 18 *in which the dividend is paid, qualifies under part II of*
 19 *subchapter M (section 856 and following) shall not be*
 20 *treated as a dividend.*

21 “(4) *Any dividend received which is described in*
 22 *section 244 (relating to dividends received on preferred*
 23 *stock of a public utility) shall not be treated as a*
 24 *dividend.*

25 “(d) *CERTAIN DIVIDENDS FROM FOREIGN CORPORA-*

1 TIONS.—For purposes of subsection (a) and for purposes of
 2 section 245, any dividend from a foreign corporation from
 3 earnings and profits accumulated by a domestic corporation
 4 during a period with respect to which such domestic corpora-
 5 tion was subject to taxation under this chapter (or corre-
 6 sponding provisions of prior law) shall be treated as a
 7 dividend from a domestic corporation which is subject to
 8 taxation under this chapter.”

9 (b) TECHNICAL AMENDMENTS.—

10 (1) Section 244 (relating to dividends received on
 11 certain preferred stock) is amended by inserting “(a)
 12 GENERAL RULE.—” before “In case of a corpora-
 13 tion,” and by adding at the end thereof the following
 14 new subsection:

15 “(b) EXCEPTION.—If the dividends described in sub-
 16 section (a)(1) are qualifying dividends (as defined in sec-
 17 tion 243(b)(1), but determined without regard to section
 18 243(c)(4))—

19 “(1) subsection (a) shall be applied separately to
 20 such qualifying dividends, and

21 “(2) for purposes of subsection (a)(3), the per-
 22 centage applicable to such qualifying dividends shall be
 23 100 percent in lieu of 85 percent.”

1 (2) Section 246(b) (relating to limitation on
2 aggregate amount of deductions for dividends received)
3 is amended by striking out "243(a), 244," each place
4 it appears therein and inserting in lieu thereof "243(a)
5 (1), 244(a),".

6 (3) Section 804(a)(5) (relating to the appli-
7 cation of section 246(b) to taxable investment income
8 of life insurance companies) is amended by striking out
9 "243(a), 244," and inserting in lieu thereof "243(a)
10 (1), 244(a),".

11 (4) Section 809(d)(8)(B) (relating to the ap-
12 plication of section 246(b) to the life insurance com-
13 pany's share of certain dividends) is amended by
14 striking out "243(a), 244," each place it appears
15 therein and inserting in lieu thereof "243(a)(1),
16 244(a),".

17 (c) *EFFECTIVE DATE.*—The amendments made by
18 subsections (a) and (b) shall apply with respect to divi-
19 dends received in taxable years ending after December 31,
20 1963.

1 SEC. ~~213~~ 216. INTEREST ON LOANS INCURRED TO PUR-
 2 CHASE CERTAIN INSURANCE AND AN-
 3 NUITY CONTRACTS.

4 (a) DISALLOWANCE OF INTEREST DEDUCTION.—

5 Section 264 (a) (relating to certain amounts paid in connec-
 6 tion with insurance contracts) is amended—

7 (1) by inserting after paragraph (2) the follow-
 8 ing new paragraph:

9 “(3) Except as provided in subsection (c), any
 10 amount paid or accrued on indebtedness incurred or
 11 continued to purchase or carry a life insurance, endow-
 12 ment, or annuity contract (other than a single premium
 13 contract or a contract treated as a single premium con-
 14 tract) pursuant to a plan of purchase which contem-
 15 plates the systematic direct or indirect borrowing of
 16 part or all of the increases in the cash value of such
 17 contract (either from the insurer or otherwise).”

18 (2) by adding at the end thereof the following
 19 new sentence: “Paragraph (3) shall apply only in
 20 respect of contracts purchased after ~~August 6, 1963~~ *De-*
 21 *cember 31, 1963.*”

22 (b) EXCEPTIONS.—Section 264 is amended by adding
 23 at the end thereof the following new subsection:

24 “(c) EXCEPTIONS.—Subsection (a) (3) shall not ap-
 25 ply to any amount paid or accrued by a person during a

1 taxable year on indebtedness incurred or continued as part
2 of a plan referred to in subsection (a) (3) —

3 “(1) if no part of 4 of the annual premiums due
4 during the 7-year period (beginning with the date the
5 first premium on the contract to which such plan relates
6 was paid) is paid under such plan by means of indebted-
7 ness,

8 “(2) if the total of the amounts paid or accrued by
9 such person during such taxable year for which (with-
10 out regard to this paragraph) no deduction would be
11 allowable by reason of subsection (a) (3) does not
12 exceed \$100,

13 “(3) if such amount was paid or accrued on in-
14 debtedness incurred because of an unforeseen substantial
15 loss of income or unforeseen substantial increase in his
16 financial obligations, or

17 “(4) if such indebtedness was incurred in con-
18 nection with his trade or business.

19 For purposes of applying paragraph (1), if there is a sub-
20 stantial increase in the premiums on a contract, a new 7-
21 year period described in such paragraph with respect to such
22 contract shall commence on the date the first such increased
23 premium is paid.”

24 (c) EFFECTIVE DATE.—The amendments made by this

1 section shall apply with respect to amounts paid or accrued
2 in taxable years beginning after December 31, 1963.

3 **SEC. 217. INTEREST ON INDEBTEDNESS INCURRED OR CON-**
4 **TINUED TO PURCHASE OR CARRY TAX-EXEMPT**
5 **BONDS.**

6 (a) *APPLICATION WITH RESPECT TO CERTAIN FI-*
7 *NANCIAL INSTITUTIONS.*—Section 265 (relating to expenses
8 and interest relating to tax-exempt income) is amended by
9 adding at the end of paragraph (2) the following new sen-
10 tence: “In applying the preceding sentence to a financial insti-
11 tution (other than a bank) which is subject to the banking laws
12 of the State in which such institution is incorporated, in-
13 terest on face-amount certificates (as defined in section 2(a)
14 (15) of the Investment Company Act of 1940 (15 U.S.C.
15 80a-2) issued by such institution, and interest on amounts
16 received for the purchase of such certificates to be issued by
17 such institution, shall not be considered as interest on in-
18 debtedness incurred or continued to purchase or carry obli-
19 gations the interest on which is wholly exempt from the taxes
20 imposed by this subtitle, to the extent that the average amount
21 of such obligations held by such institution during the taxable
22 year (as determined under regulations prescribed by the Sec-
23 retary or his delegate) does not exceed 25 percent of the

1 *average of the total assets held by such institution during the*
 2 *taxable year (as so determined)."*

3 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 4 *section (a) shall apply with respect to taxable years ending*
 5 *after the date of the enactment of this Act.*

6 **SEC. 218. REPEAL OF REQUIREMENT OF ALLOCATION OF**
 7 **CERTAIN TRAVELING EXPENSES.**

8 *(a) REPEAL OF SECTION 274(c).—Section 274 (re-*
 9 *lating to disallowance of certain entertainment, etc., ex-*
 10 *penses) is amended by striking out subsection (c) (relating*
 11 *to traveling).*

12 *(b) EFFECTIVE DATE.—The amendment made by sub-*
 13 *section (a) shall apply with respect to taxable years ending*
 14 *after December 31, 1962, but only in respect of periods after*
 15 *such date.*

16 **SEC. 219. ACQUISITION OF STOCK IN EXCHANGE FOR**
 17 **STOCK OF CORPORATION WHICH IS IN CON-**
 18 **TROL OF ACQUIRING CORPORATION.**

19 *(a) DEFINITION OF REORGANIZATION.—Section 368*
 20 *(a) (1) (relating to definition of reorganization) is amended*
 21 *by inserting after "voting stock" in subparagraph (B) "(or*
 22 *in exchange solely for all or a part of the voting stock of a*

1 corporation which is in control of the acquiring
2 corporation)".

3 (b) *TECHNICAL AMENDMENTS.*—

4 (1) Section 368(a)(2)(C) (relating to special
5 rules) is amended to read as follows:

6 “(C) *TRANSFERS OF ASSETS OR STOCK TO*
7 *SUBSIDIARIES IN CERTAIN PARAGRAPH (1)(A),*
8 *(1)(B), AND (1)(C) CASES.*—A transaction otherwise
9 qualifying under paragraph (1)(A), (1)(B), or
10 (1)(C) shall not be disqualified by reason of the
11 fact that part or all of the assets or stock which were
12 acquired in the transaction are transferred to a
13 corporation controlled by the corporation acquiring
14 such assets or stock.”

15 (2) Section 368(b) (relating to definition of party
16 to a reorganization) is amended by striking out the last
17 two sentences and inserting in lieu thereof the following:
18 “In the case of a reorganization qualifying under para-
19 graph (1)(B) or (1)(C) of subsection (a), if the
20 stock exchanged for the stock or properties is stock of
21 a corporation which is in control of the acquiring corpo-
22 ration, the term ‘a party to a reorganization’ includes
23 the corporation so controlling the acquiring corporation.
24 In the case of a reorganization qualifying under para-
25 graph (1)(A), (1)(B), or (1)(C) of subsection

1 (a) by reason of paragraph (2)(C) of subsection (a),
 2 the term ‘a party to a reorganization’ includes the corpo-
 3 ration controlling the corporation to which the acquired
 4 assets or stock are transferred.”

5 (c) *EFFECTIVE DATE*.—The amendments made by this
 6 section shall apply with respect to transactions after December
 7 31, 1963, in taxable years ending after such date.

8 **SEC. 220. RETROACTIVE QUALIFICATION OF CERTAIN**
 9 **UNION-NEGOTIATED MULTIEMPLOYER PEN-**
 10 **SION PLANS.**

11 (a) *BEGINNING OF PERIOD AS QUALIFIED TRUST*.—
 12 Section 401 (relating to qualified pension, profit-sharing, and
 13 stock bonus plans) is amended by redesignating subsection
 14 (i) as subsection (j), and by inserting after subsection (h)
 15 the following new subsection:

16 “(i) *CERTAIN UNION-NEGOTIATED MULTIEMPLOYER*
 17 *PENSION PLANS*.—In the case of a trust forming part of a
 18 pension plan which has been determined by the Secretary or
 19 his delegate to constitute a qualified trust under subsection
 20 (a) and to be exempt from taxation under section 501(a)
 21 for a period beginning after contributions were first made to
 22 or for such trust, if it is shown to the satisfaction of the Sec-
 23 retary or his delegate that—

24 “(1) such trust was created pursuant to a collective
 25 bargaining agreement between employee representatives

1 *and two or more employers who are not related (deter-*
 2 *mined under regulations prescribed by the Secretary or*
 3 *his delegate),*

4 *“(2) any disbursements of contributions, made to or*
 5 *for such trust before the time as of which the Secretary or*
 6 *his delegate determined that the trust constituted a quali-*
 7 *fied trust, substantially complied with the terms of the*
 8 *trust, and the plan of which the trust is a part, as subse-*
 9 *quently qualified, and*

10 *“(3) before the time as of which the Secretary or his*
 11 *delegate determined that the trust constitutes a qualified*
 12 *trust, the contributions to or for such trust were not*
 13 *used in a manner which would jeopardize the interests*
 14 *of its beneficiaries,*

15 *then such trust shall be considered as having constituted a*
 16 *qualified trust under subsection (a) and as having been*
 17 *exempt from taxation under section 501(a) for the period*
 18 *beginning on the date on which contributions were first made*
 19 *to or for such trust and ending on the date such trust first con-*
 20 *stituted (without regard to this subsection) a qualified trust*
 21 *under subsection (a).”*

22 *(b) EFFECTIVE DATE.—The amendments made by*
 23 *subsection (a) shall apply with respect to taxable years*
 24 *beginning after December 31, 1953, and ending after Au-*
 25 *gust 16, 1954, but only with respect to contributions made*
 26 *after December 31, 1954.*

1 SEC. 221. QUALIFIED PENSION, ETC., PLAN COVERAGE FOR
 2 EMPLOYEES OF CERTAIN SUBSIDIARY EM-
 3 PLOYERS.

4 (a) EMPLOYEES OF FOREIGN SUBSIDIARIES COVERED
 5 BY SOCIAL SECURITY AGREEMENTS.—Part I of subchapter
 6 D of chapter 1 (relating to pension, profit-sharing, stock
 7 bonus plans, etc.) is amended by adding at the end thereof
 8 the following new section:

9 “SEC. 406. CERTAIN EMPLOYEES OF FOREIGN SUBSIDI-
 10 ARIES.

11 “(a) TREATMENT AS EMPLOYEES OF DOMESTIC COR-
 12 PORATION.—For purposes of applying this part with respect
 13 to a pension, profit-sharing, or stock bonus plan described in
 14 section 401(a), an annuity plan described in section 403(a),
 15 or a bond purchase plan described in section 405(a), of a
 16 domestic corporation, an individual who is a citizen of the
 17 United States and who is an employee of a foreign subsidiary
 18 (as defined in section 3121(l)(8)) of such domestic corpo-
 19 ration shall be treated as an employee of such domestic
 20 corporation, if—

21 “(1) such domestic corporation has entered into an
 22 agreement under section 3121(l) which applies to the
 23 foreign subsidiary of which such individual is an em-
 24 ployee;

25 “(2) the plan of such domestic corporation expressly
 26 provides for contributions or benefits for individuals who

1 *are citizens of the United States and who are employees*
 2 *of its foreign subsidiaries to which an agreement entered*
 3 *into by such domestic corporation under section 3121*
 4 *(l) applies; and*

5 *“(3) contributions under a funded plan of deferred*
 6 *compensation (whether or not a plan described in section*
 7 *401(a), 403(a), or 405(a)) are not provided by any*
 8 *other person with respect to the remuneration paid to*
 9 *such individual by the foreign subsidiary.*

10 *“(b) SPECIAL RULES FOR APPLICATION OF SECTION*
 11 *401(a).—*

12 *“(1) NONDISCRIMINATION REQUIREMENTS.—For*
 13 *purposes of applying paragraphs (3)(B) and (4) of*
 14 *section 401(a) with respect to an individual who is*
 15 *treated as an employee of a domestic corporation under*
 16 *subsection (a)—*

17 *“(A) if such individual is an officer, share-*
 18 *holder, or person whose principal duties consist in*
 19 *supervising the work of other employees of a for-*
 20 *ign subsidiary of such domestic corporation, he*
 21 *shall be treated as having such capacity with respect*
 22 *to such domestic corporation; and*

23 *“(B) the determination of whether such indi-*
 24 *vidual is a highly compensated employee shall be*
 25 *made by treating such individual's total compensa-*
 26 *tion (determined with the application of paragraph*

(2) of this subsection) as compensation paid by such domestic corporation and by determining such individual's status with regard to such domestic corporation.

“(2) DETERMINATION OF COMPENSATION.—For purposes of applying paragraph (5) of section 401(a) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a)—

“(A) the total compensation of such individual shall be the remuneration paid to such individual by the foreign subsidiary which would constitute his total compensation if his services had been performed for such domestic corporation, and the basic or regular rate of compensation of such individual shall be determined under regulations prescribed by the Secretary or his delegate; and

“(B) such individual shall be treated as having paid the amount paid by such domestic corporation which is equivalent to the tax imposed by section 3101.

“(c) TERMINATION OF STATUS AS DEEMED EMPLOYEE NOT TO BE TREATED AS SEPARATION FROM SERVICE FOR PURPOSES OF CAPITAL GAIN PROVISIONS.—For purposes of applying section 402(a)(2) and section 403(a)(2) with respect to an individual who is treated as an employee of a domestic corporation under subsection (a),

1 *such individual shall not be considered as separated from the*
 2 *service of such domestic corporation solely by reason of the*
 3 *fact that—*

4 “(1) *the agreement entered into by such domestic*
 5 *corporation under section 3121(l) which covers the*
 6 *employment of such individual is terminated under the*
 7 *provisions of such section,*

8 “(2) *such individual becomes an employee of a*
 9 *foreign subsidiary with respect to which such agreement*
 10 *does not apply,*

11 “(3) *such individual ceases to be an employee of the*
 12 *foreign subsidiary by reason of which he is treated as*
 13 *an employee of such domestic corporation, if he becomes*
 14 *an employee of another corporation controlled by such*
 15 *domestic corporation, or*

16 “(4) *the provision of the plan described in subsec-*
 17 *tion (a)(2) is terminated.*

18 “(d) *DEDUCTIBILITY OF CONTRIBUTIONS.—For pur-*
 19 *poses of applying sections 404 and 405(c) with respect to*
 20 *contributions made to or under a pension, profit-sharing, stock*
 21 *bonus, annuity, or bond purchase plan by a domestic cor-*
 22 *poration, or by another corporation which is entitled to de-*
 23 *duct its contributions under section 404(a)(3)(B), on behalf*
 24 *of an individual who is treated as an employee of such domes-*
 25 *tic corporation under subsection (a)—*

1 “(1) except as provided in paragraph (2), no de-
 2 duction shall be allowed to such domestic corporation or
 3 to any other corporation which is entitled to deduct its
 4 contributions under such sections,

5 “(2) there shall be allowed as a deduction to the
 6 foreign subsidiary of which such individual is an em-
 7 ployee an amount equal to the amount which (but for
 8 paragraph (1)) would be deductible under section 404
 9 (or section 405(c)) by the domestic corporation if he
 10 were an employee of the domestic corporation, and

11 “(3) any reference to compensation shall be con-
 12 sidered to be a reference to the total compensation of
 13 such individual (determined with the application of sub-
 14 section (b)(2)).

15 Any amount deductible by a foreign subsidiary under this
 16 subsection shall be deductible for its taxable year with or
 17 within which the taxable year of such domestic corporation
 18 ends.

19 “(e) *TREATMENT AS EMPLOYEE UNDER RELATED*
 20 *PROVISIONS.*—An individual who is treated as an employee
 21 of a domestic corporation under subsection (a) shall also be
 22 treated as an employee of such domestic corporation for pur-
 23 poses of applying the following provisions of this title:

24 “(1) Section 72(d) (relating to employees’ an-
 25 nuities).

1 “(2) Section 72(f) (relating to special rules for
2 computing employees’ contributions).

3 “(3) Section 101(b) (relating to employees’ death
4 benefits).

5 “(4) Section 2039 (relating to annuities).

6 “(5) Section 2517 (relating to certain annuities
7 under qualified plan).”

8 (b) EMPLOYEES OF DOMESTIC SUBSIDIARIES EN-
9 GAGED IN BUSINESS OUTSIDE THE UNITED STATES.—
10 Part I of subchapter D of chapter 1 (relating to pension,
11 profit-sharing, stock bonus plans, etc.) is amended by adding
12 after section 406 (as added by subsection (a)) the following
13 new section:

14 “SEC. 407. CERTAIN EMPLOYEES OF DOMESTIC SUBSIDI-
15 ARIES ENGAGED IN BUSINESS OUTSIDE THE
16 UNITED STATES.

17 “(a) TREATMENT AS EMPLOYEES OF DOMESTIC
18 PARENT CORPORATION.—

19 “(1) IN GENERAL.—For purposes of applying this
20 part with respect to a pension, profit-sharing, or stock
21 bonus plan described in section 401(a), an annuity plan
22 described in section 403(a), or a bond purchase plan de-
23 scribed in section 405(a), of a domestic parent corpora-
24 tion, an individual who is a citizen of the United States
25 and who is an employee of a domestic subsidiary (within

1 *the meaning of paragraph (2)) of such domestic parent*
 2 *corporation shall be treated as an employee of such do-*
 3 *mestic parent corporation, if—*

4 *“(A) the plan of such domestic parent corpora-*
 5 *tion expressly provides for contributions or benefits*
 6 *for individuals who are citizens of the United States*
 7 *and who are employees of its domestic subsidiaries;*
 8 *and*

9 *“(B) contributions under a funded plan of de-*
 10 *ferred compensation (whether or not a plan de-*
 11 *scribed in section 401(a), 403(a), or 405(a)) are*
 12 *not provided by any other person with respect to the*
 13 *remuneration paid to such individual by the domestic*
 14 *subsidiary.*

15 *“(2) DEFINITIONS.—For purposes of this section—*

16 *“(A) DOMESTIC SUBSIDIARY.—A corporation*
 17 *shall be treated as a domestic subsidiary for any*
 18 *taxable year only if—*

19 *“(i) such corporation is a domestic cor-*
 20 *poration 80 percent or more of the outstanding*
 21 *voting stock of which is owned by another domes-*
 22 *tic corporation;*

23 *“(ii) 95 percent or more of its gross in-*
 24 *come for the three-year period immediately pre-*
 25 *ceding the close of its taxable year which ends on*

1 *or before the close of the taxable year of such*
 2 *other domestic corporation (or for such part of*
 3 *such period during which the corporation was*
 4 *in existence) was derived from sources without*
 5 *the United States; and*

6 “(iii) 90 percent or more of its gross income
 7 *for such period (or such part) was derived from*
 8 *the active conduct of a trade or business.*

9 “(B) DOMESTIC PARENT CORPORATION.—The
 10 *domestic parent corporation of any domestic sub-*
 11 *sidary is the domestic corporation which owns 80*
 12 *percent or more of the outstanding voting stock of*
 13 *such domestic subsidiary.*

14 “(b) SPECIAL RULES FOR APPLICATION OF SECTION
 15 401(a).—

16 “(1) NONDISCRIMINATION REQUIREMENTS.—For
 17 *purposes of applying paragraphs (3)(B) and (4) of*
 18 *section 401(a) with respect to an individual who is*
 19 *treated as an employee of a domestic parent corporation*
 20 *under subsection (a)—*

21 “(A) if such individual is an officer, share-
 22 *holder, or person whose principal duties consist in*
 23 *supervising the work of other employees of a domes-*
 24 *tic subsidiary, he shall be treated as having such*

1 *capacity with respect to such domestic parent cor-*
 2 *poration; and*

3 “(B) the determination of whether such indi-
 4 *vidual is a highly compensated employee shall be*
 5 *made by treating such individual's total compensa-*
 6 *tion (determined with the application of paragraph*
 7 *(2) of this subsection) as compensation paid by*
 8 *such domestic parent corporation and by determin-*
 9 *ing such individual's status with regard to such*
 10 *domestic parent corporation.*

11 “(2) DETERMINATION OF COMPENSATION.—

12 *For purposes of applying paragraph (5) of section*
 13 *401(a) with respect to an individual who is treated as*
 14 *an employee of a domestic parent corporation under*
 15 *subsection (a), the total compensation of such in-*
 16 *dividual shall be the remuneration paid to such individual*
 17 *by the domestic subsidiary which would constitute his total*
 18 *compensation if his services had been performed for such*
 19 *domestic parent corporation, and the basic or regular*
 20 *rate of compensation of such individual shall be deter-*
 21 *mined under regulations prescribed by the Secretary or*
 22 *his delegate.*

23 “(c) TERMINATION OF STATUS AS DEEMED EM-
 24 *PLOYEE NOT TO BE TREATED AS SEPARATION FROM*

1 *SERVICE FOR PURPOSES OF CAPITAL GAIN PROVI-*
 2 *SIONS.—For purposes of applying section 402(a)(2) and*
 3 *section 403(a)(2) with respect to an individual who is*
 4 *treated as an employee of a domestic parent corporation under*
 5 *subsection (a), such individual shall not be considered as*
 6 *separated from the service of such domestic parent corpora-*
 7 *tion solely by reason of the fact that—*

8 *“(1) the corporation of which such individual is an*
 9 *employee ceases, for any taxable year, to be a domestic*
 10 *subsidiary within the meaning of subsection (a)(2)(A),*

11 *“(2) such individual ceases to be an employee of*
 12 *a domestic subsidiary of such domestic parent corpora-*
 13 *tion, if he becomes an employee of another corporation*
 14 *controlled by such domestic parent corporation, or*

15 *“(3) the provision of the plan described in sub-*
 16 *section (a)(1)(A) is terminated.*

17 *“(d) DEDUCTIBILITY OF CONTRIBUTIONS.—For pur-*
 18 *poses of applying sections 404 and 405(c) with respect to*
 19 *contributions made to or under a pension, profit-sharing,*
 20 *stock bonus, annuity, or bond purchase plan by a domestic*
 21 *parent corporation, or by another corporation which is en-*
 22 *titled to deduct its contributions under section 404(a)(3)(B),*
 23 *on behalf of an individual who is treated as an employee of*
 24 *such domestic corporation under subsection (a)—*

1 “(1) except as provided in paragraph (2), no de-
 2 duction shall be allowed to such domestic parent corpora-
 3 tion or to any other corporation which is entitled to
 4 deduct its contributions under such sections,

5 “(2) there shall be allowed as a deduction to the
 6 domestic subsidiary of which such individual is an
 7 employee an amount equal to the amount which (but for
 8 paragraph (1)) would be deductible under section 404
 9 (or section 405(c)) by the domestic parent corporation
 10 if he were an employee of the domestic parent corpora-
 11 tion, and

12 “(3) any reference to compensation shall be con-
 13 sidered to be a reference to the total compensation of
 14 such individual (determined with the application of sub-
 15 section (b)(2)).

16 Any amount deductible by a domestic subsidiary under this
 17 subsection shall be deductible for its taxable year with or
 18 within which the taxable year of such domestic parent cor-
 19 poration ends.

20 “(e) TREATMENT AS EMPLOYEE UNDER RELATED
 21 PROVISIONS.—An individual who is treated as an employee
 22 of a domestic parent corporation under subsection (a) shall
 23 also be treated as an employee of such domestic parent cor-

1 *poration for purposes of applying the following provisions*
 2 *of this title:*

3 “(1) Section 72(d) (relating to employees’
 4 annuities). ”

5 “(2) Section 72(f) (relating to special rules for
 6 computing employees’ contributions). ”

7 “(3) Section 101(b) (relating to employees’ death
 8 benefits). ”

9 “(4) Section 2039 (relating to annuities). ”

10 “(5) Section 2517 (relating to certain annuities
 11 under qualified plan). ”

12 (c) *TECHNICAL AMENDMENTS.—*

13 (1) *The table of sections for part I of subchapter*
 14 *D of chapter 1 is amended by adding at the end thereof*
 15 *the following:*

 “Sec. 406. *Certain employees of foreign subsidiaries.*

 “Sec. 407. *Certain employees of domestic subsidiaries en-*
 gaged in business outside the United States.”

16 (2) *Section 3121(a)(5) (relating to definition of*
 17 *wages) is amended by striking out “or” at the end of*
 18 *subparagraph (A) and by striking out subparagraph*
 19 *(B) and inserting in lieu thereof the following new sub-*
 20 *paragraphs:*

21 “(B) *under or to an annuity plan which, at*
 22 *the time of such payment, is a plan described in*
 23 *section 403(a), or*

1 “(C) under or to a bond purchase plan which,
2 at the time of such payment, is a qualified bond pur-
3 chase plan described in section 405(a);”.

4 (3) Section 209(e) of the Social Security Act
5 (relating to the definition of wages) is amended to read
6 as follows:

7 “(e) Any payment made to, or on behalf of, an em-
8 ployee or his beneficiary (1) from or to a trust exempt
9 from tax under section 165(a) of the Internal Revenue
10 Code of 1939 at the time of such payment or, in the case
11 of a payment after 1954, under sections 401 and 501(a)
12 of the Internal Revenue Code of 1954, unless such pay-
13 ment is made to an employee of the trust as remuneration
14 for services rendered as such employee and not as a benc-
15 ficiary of the trust, or (2) under or to an annuity plan
16 which, at the time of such payment, meets the requirements
17 of section 165(a) (3), (4), (5), and (6) of the Internal
18 Revenue Code of 1939 or, in the case of a payment after
19 1954 and prior to 1963, the requirements of section 401(a)
20 (3), (4), (5), and (6) of the Internal Revenue Code of
21 1954, or (3) under or to an annuity plan which, at the
22 time of any such payment after 1962, is a plan described
23 in section 403(a) of the Internal Revenue Code of 1954,
24 or (4) under or to a bond purchase plan which, at the time
25 of any such payment after 1962, is a qualified bond pur-

1 *chase plan described in section 405(a) of the Internal Rev-*
 2 *enue Code of 1954;”.*

3 (d) *EFFECTIVE DATE.—The amendments made by*
 4 *subsections (a), (b), and (c) (1) shall apply to taxable years*
 5 *ending after December 31, 1963. The amendments made by*
 6 *subsections (c) (2) and (3) shall apply to remuneration*
 7 *paid after December 31, 1962.*

8 **SEC. ~~244~~ 222. EMPLOYEE STOCK OPTIONS AND PURCHASE**
 9 **PLANS.**

10 (a) **IN GENERAL.**—Part II of subchapter D of chapter
 11 1 is amended to read as follows:

12 **“PART II—CERTAIN STOCK OPTIONS**

“Sec. 421. General rules.

“Sec. 422. Qualified stock options.

“Sec. 423. Employee stock purchase plans.

“Sec. 424. Restricted stock options.

“Sec. 425. Definitions and special rules.

13 **“SEC. 421. GENERAL RULES.**

14 **“(a) EFFECT OF QUALIFYING TRANSFER.**—If a share
 15 of stock is transferred to an individual in a transfer in
 16 respect of which the requirements of section 422 (a),
 17 423 (a), or 424 (a) are met—

18 **“(1)** except as provided in section 422 (c) (1),
 19 no income shall result at the time of the transfer of
 20 such share to the individual upon his exercise of the
 21 option with respect to such share;

22 **“(2)** no deduction under section 162 (relating

1 to trade or business expenses) shall be allowable at
2 any time to the employer corporation, a parent or
3 subsidiary corporation of such corporation, or a corpora-
4 tion issuing or assuming a stock option in a transaction
5 to which section 425 (a) applies, with respect to the
6 share so transferred; and

7 “(3) no amount other than the price paid under
8 the option shall be considered as received by any of
9 such corporations for the share so transferred.

10 “(b) EFFECT OF DISQUALIFYING DISPOSITION.—If
11 the transfer of a share of stock to an individual pursuant to
12 his exercise of an option would otherwise meet the require-
13 ments of section 422 (a), 423 (a), or 424 (a) except that
14 there is a failure to meet any of the holding period require-
15 ments of section 422 (a) (1), 423 (a) (1), or 424 (a) (1),
16 then any increase in the income of such individual or deduc-
17 tion from the income of his employer corporation for the
18 taxable year in which such exercise occurred attributable to
19 such disposition, shall be treated as an increase in income or
20 a deduction from income in the taxable year of such in-
21 dividual or of such employer corporation in which such dis-
22 position occurred.

23 “(c) EXERCISE BY ESTATE.—

24 “(1) IN GENERAL.—If an option to which this part
25 applies is exercised after the death of the employee by

1 the estate of the decedent, or by a person who acquired
2 the right to exercise such option by bequest or in-
3 heritance or by reason of the death of the decedent,
4 the provisions of subsection (a) shall apply to the same
5 extent as if the option had been exercised by the dece-
6 dent, except that—

7 “(A) the holding period and employment
8 requirements of sections 422 (a), 423 (a), and 424
9 (a) shall not apply, and

10 “(B) any transfer by the estate of stock ac-
11 quired shall be considered a disposition of such stock
12 for purposes of sections 423 (c) and 424 (c) (1).

13 “(2) DEDUCTION FOR ESTATE TAX.—If an amount
14 is required to be included under section 422 (c) (1),
15 423 (c), or 424 (c) (1) in gross income of the estate
16 of the deceased employee or of a person described in
17 paragraph (1), there shall be allowed to the estate or
18 such person a deduction with respect to the estate tax
19 attributable to the inclusion in the taxable estate of
20 the deceased employee of the net value for estate tax
21 purposes of the option. For this purpose, the deduction
22 shall be determined under section 691 (c) as if the
23 option acquired from the deceased employee were an
24 item of gross income in respect of the decedent under
25 section 691 and as if the amount includible in gross

1 income under section 422 (c) (1), 423 (c), or 424 (c)
 2 (1) were an amount included in gross income under
 3 section 691 in respect of such item of gross income.

4 “(3) BASIS OF SHARES ACQUIRED.—In the case of
 5 a share of stock acquired by the exercise of an option
 6 to which paragraph (1) applies—

7 “(A) the basis of such share shall include so
 8 much of the basis of the option as is attributable to
 9 such share; except that the basis of such share shall
 10 be reduced by the excess (if any) of (i) the ~~amount,~~
 11 *amount* which would have been includible in gross
 12 income under section 422 (c) (1), 423 (c), or 424
 13 (c) (1) if the employee had exercised the option
 14 on the date of his death and had held the share
 15 acquired pursuant to such exercise at the time
 16 of his death, over (ii) the amount which is in-
 17 cludible in gross income under such section; and

18 “(B) the last sentence of sections 422 (c) (1),
 19 423 (c), and 424 (c) (1) shall apply only to the
 20 extent that the amount includible in gross income
 21 under such sections exceeds so much of the basis
 22 of the option as is attributable to such share.

23 **“SEC. 422. QUALIFIED STOCK OPTIONS.**

24 “(a) IN GENERAL.—Subject to the provisions of sub-
 25 section (c) (1), section 421 (a) shall apply with respect to

1 the transfer of a share of stock to an individual pursuant to his
2 exercise of a qualified stock option if—

3 “(1) no disposition of such share is made by such
4 individual within the 3-year period beginning on the day
5 after the day of the transfer of such share, and

6 “(2) at all times during the period beginning with
7 the date of the granting of the option and ending on
8 the day 3 months before the date of such exercise, such
9 individual was an employee of either the corporation
10 granting such option, a parent or subsidiary corporation
11 of such corporation, or a corporation or a parent or sub-
12 sidiary corporation of such corporation issuing or assum-
13 ing a stock option in a transaction to which section
14 425 (a) applies.

15 “(b) QUALIFIED STOCK OPTION.—For purposes of this
16 part, the term ‘qualified stock option’ means an option
17 granted to an individual after ~~June 11, 1963~~ *December 31,*
18 *1963* (other than a restricted stock option granted pursu-
19 ant to a contract described in section 424 (c) ~~(4)~~ (3) (A)),
20 for any reason connected with his employment by a corpo-
21 ration, if granted by the employer corporation or its parent
22 or subsidiary corporation, to purchase stock of any of such
23 corporations, but only if—

24 “(1) the option is granted pursuant to a plan
25 which includes the aggregate number of shares which

1 may be issued under options, and the employees (or
2 class of employees) eligible to receive options, and
3 which is approved by the stockholders of the granting
4 corporation within 12 months before or after the date
5 such plan is adopted;

6 “(2) such option is granted within 10 years from
7 the date such plan is adopted, or the date such plan
8 is approved by the stockholders, whichever is earlier;

9 “(3) such option by its terms is not exercisable
10 after the expiration of 5 years from the date such
11 option is granted;

12 “(4) except as provided in subsection (c) (1),
13 the option price is not less than the fair market value
14 of the stock at the time such option is granted;

15 “(5) such option by its terms is not exercisable
16 while there is outstanding (within the meaning of sub-
17 section (c) (2)) any qualified stock option (or re-
18 stricted stock option) which was granted, before the
19 granting of such option, to such individual to purchase
20 stock in his employer corporation or in a corporation
21 which (at the time of the granting of such option) is a
22 parent or subsidiary corporation of the employer corpora-
23 tion, or in a predecessor corporation of any of such
24 corporations;

25 “(6) such option by its terms is not transferable

1 by such individual otherwise than by will or the laws
2 of descent and distribution, and is exercisable, during
3 his lifetime, only by him; and

4 “(7) such individual, immediately after such option
5 is granted, does not own stock possessing more than 5
6 percent of the total combined voting power or value of
7 all classes of stock of the employer corporation or of its
8 parent or subsidiary corporation; except that if the
9 equity capital of such corporation or corporations (de-
10 termined at the time the option is granted) is less than
11 \$2,000,000, then, for purposes of applying the limita-
12 tion of this paragraph, there shall be added to such
13 5 percent the percentage (not higher than 5 percent)
14 which bears the same ratio to 5 percent as the difference
15 between such equity capital and \$2,000,000 bears to
16 \$1,000,000.

17 “(c) SPECIAL RULES.—

18 “(1) EXERCISE OF OPTION WHEN PRICE IS LESS
19 THAN VALUE OF STOCK.—If a share of stock is trans-
20 ferred pursuant to the exercise by an individual of an
21 option which fails to qualify as a qualified stock option
22 under subsection (b) because there was a failure in an
23 attempt, made in good faith, to meet the requirement of
24 subsection (b) (4), the requirement of subsection (b)
25 (4) shall be considered to have been met, but there

shall be included as compensation (and not as gain upon the sale or exchange of a capital asset) in his gross income for the taxable year in which such option is exercised, an amount equal to the lesser of—

“(A) 150 percent of the difference between the option price and the fair market value of the share at the time the option was granted, or

“(B) the difference between the option price and the fair market value of the share at the time of such exercise.

The basis of the share acquired shall be increased by an amount equal to the amount included in his gross income under this paragraph in the taxable year in which the exercise occurred.

“(2) CERTAIN OPTIONS TREATED AS OUTSTANDING.—For purposes of subsection (b) (5) —

“(A) any restricted stock option which is not terminated before January 1, 1965, and

“(B) any qualified stock option granted after ~~June 11, 1963,~~ *December 31, 1963,*

shall be treated as outstanding until such option is exercised in full or expires by reason of the lapse of time.

For purposes of the preceding sentence, a restricted stock option granted before ~~June 12, 1963,~~ *January 1, 1964,* shall not be treated as outstanding for any period before

1 the first day on which (under the terms of such option)
2 it may be exercised.

3 “(3) OPTIONS GRANTED TO CERTAIN SHARE-
4 HOLDERS.—For purposes of subsection (b) (7) —

5 “(A) the term ‘equity capital’ means—

6 “(i) in the case of one corporation, the
7 sum of its money and other property (in an
8 amount equal to the adjusted basis of such
9 property for determining gain), less the amount
10 of its indebtedness (other than indebtedness to
11 shareholders), and

12 “(ii) in the case of a group of corporations
13 consisting of a parent and its subsidiary cor-
14 porations, the sum of the equity capital of each
15 of such corporations adjusted, under regulations
16 prescribed by the Secretary or his delegate, to
17 eliminate the effect of intercorporate ownership
18 ~~or~~ and transactions among such corporations;

19 “(B) the rules of section 425 (d) shall apply
20 in determining the stock ownership of the indi-
21 vidual; and

22 “(C) stock which the individual may purchase
23 under outstanding options shall be treated as stock
24 owned by such individual.

25 If an individual is granted an option which permits

1 him to purchase stock in excess of the limitation of
2 subsection (b) (7) (determined by applying the rules
3 of this paragraph), such option shall be treated as
4 meeting the requirement of subsection (b) (7) to the
5 extent that such individual could, if the option were fully
6 exercised at the time of grant, purchase stock under
7 such option without exceeding such limitation. The
8 portion of such option which is treated as meeting the
9 requirement of subsection (b) (7) shall be deemed
10 to be that portion of the option which is first exercised.

11 “(4) CERTAIN DISQUALIFYING DISPOSITIONS
12 WHERE AMOUNT REALIZED IS LESS THAN VALUE AT
13 EXERCISE.—If—

14 “(A) an individual who has acquired a share
15 of stock by the exercise of a qualified stock option
16 makes a disposition of such share within the 3-year
17 period described in subsection (a) (1), and

18 “(B) such disposition is a sale or exchange
19 with respect to which a loss (if sustained) would
20 be recognized to such individual,

21 then the amount which is includible in the gross income
22 of such individual, and the amount which is deductible
23 from the income of his employer corporation, as com-
24 pensation attributable to the exercise of such option shall
25 not exceed the excess (if any) of the amount realized

1 on such sale or exchange over the amount paid for
2 *adjusted basis of such share.*

3 “(5) CERTAIN TRANSFERS BY INSOLVENT INDIVIDUALS.—If an insolvent individual holds a share of
4 stock acquired pursuant to his exercise of a qualified
5 stock option, and if such share is transferred to a trustee,
6 receiver, or other similar fiduciary, in any proceeding
7 under the Bankruptcy Act or any other similar insolvency proceeding, neither such transfer, nor any other
8 transfer of such share for the benefit of his creditors
9 in such proceeding, shall constitute a ‘disposition of
10 such share’ for purposes of subsection (a) (1).

13 “(6) EXCEPTION TO APPLICATION OF SUBSECTION (b)(5).—Paragraph (5) of subsection (b) shall not
14 apply if—

16 “(A) the option being granted and all outstanding
17 qualified (or restricted) stock options referred
18 to in subsection (b)(5) are to purchase stock of the
19 same class in the same corporation, and

20 “(B) the price payable under each such outstanding option (as of the date of grant of the
21 option being granted) is not more than the option
22 price of the option being granted.
23

1 **"SEC. 423. EMPLOYEE STOCK PURCHASE PLANS.**

2 “(a) GENERAL RULE.—Section 421(a) shall apply
3 with respect to the transfer of a share of stock to an individ-
4 ual pursuant to his exercise of an option granted after June
5 ~~11, 1963~~ *December 31, 1963* (other than a restricted stock
6 option granted pursuant to a plan described in section 424
7 (c) ~~[(4)(3)(B)]~~), under an employee stock purchase plan
8 (as defined in subsection (b)) if—

9 “(1) no disposition of such share is made by him
10 within 2 years after the date of the granting of the
11 option nor within 6 months after the transfer of such
12 share to him; and

13 “(2) at all times during the period beginning with
14 the date of the granting of the option and ending on
15 the day 3 months before the date of such exercise, he
16 is an employee of the corporation granting such option,
17 a parent or subsidiary corporation of such corporation,
18 or a corporation or a parent or subsidiary corporation
19 of such corporation issuing or assuming a stock option
20 in a transaction to which section 425(a) applies.

21 “(b) EMPLOYEE STOCK PURCHASE PLAN.—For pur-

1 poses of this part, the term 'employee stock purchase plan'
2 means a plan which meets the following requirements:

3 “(1) the plan provides that options are to be
4 granted only to employees of the employer corporation
5 or of its parent or subsidiary corporation to purchase
6 stock in any such ~~corporations~~ corporation;

7 “(2) such plan is approved by the stockholders
8 of the granting corporation within 12 months before or
9 after the date such plan is adopted;

10 “(3) under the terms of the plan, no employee can
11 be granted an option if such employee, immediately
12 after the option is granted, owns stock possessing 5 per-
13 cent or more of the total combined voting power or value
14 of all classes of stock of the employer corporation or of
15 its parent or subsidiary corporation. For purposes of
16 this paragraph, the rules of section 425 (d) shall apply
17 in determining the stock ownership of an individual, and
18 stock which the employee may purchase under outstand-
19 ing options shall be treated as stock owned by the em-
20 ployee;

21 “(4) under the terms of the plan, options are to be
22 granted to all employees of any corporation whose em-
23 ployees are granted any of such options by reason of
24 their employment by such corporation, except that there
25 may be excluded—

1 “(A) employees who have been employed less
2 than 2 years,

3 “(B) employees whose customary employment
4 is 20 hours or less per week,

5 “(C) employees whose customary employment
6 is for not more than 5 months in any calendar year,
7 and

8 “(D) officers, persons whose principal duties
9 consist of supervising the work of other employees,
10 or highly compensated employees;

11 “(5) under the terms of the plan, all employees
12 granted such options shall have the same rights and
13 privileges, except that the amount of stock which may
14 be purchased by any employee under such option may
15 bear a uniform relationship to the total compensation,
16 or the basic or regular rate of compensation, of em-
17 ployees, and the plan may provide that no employee
18 may purchase more than a maximum amount of stock
19 fixed under the plan;

20 “(6) under the terms of the plan, the option price
21 is not less than the lesser of—

22 “(A) an amount equal to 85 percent of the
23 fair market value of the stock at the time such option
24 is granted, or

25 “(B) an amount which under the terms of the

1 option may not be less than 85 percent of the fair
2 market value of the stock at the time such option is
3 exercised;

4 “(7) under the terms of the plan, such option can-
5 not be exercised after the expiration of—

6 “(A) 5 years from the date such option is
7 granted if, under the terms of such plan, the option
8 price is to be not less than 85 percent of the fair
9 market value of such stock at the time of the exer-
10 cise of the option, or

11 “(B) 27 months from the date such option is
12 granted, if the option price is not determinable in
13 the manner described in subparagraph (A) ;

14 “(8) under the terms of the plan, no employee
15 may be granted an option which permits his rights to
16 purchase stock under all such plans of his employer
17 corporation and its parent and subsidiary corporations
18 to accrue at a rate which exceeds \$25,000 of fair mar-
19 ket value of such stock (determined at the time such
20 option is granted) for each calendar year in which such
21 option is outstanding at any time. For purposes of this
22 paragraph—

23 “(A) the right to purchase stock under an
24 option accrues when the option (or any portion

1 thereof) first becomes exercisable during the
2 calendar year;

3 “(B) the right to purchase stock under an
4 option accrues at the rate provided in the option,
5 but in no case may such rate exceed \$25,000 of
6 fair market value of such stock (determined at the
7 time such option is granted) for any one calendar
8 year; and

9 “(C) a right to purchase stock which has
10 accrued under one option granted pursuant to the
11 plan may not be carried over to any other option;
12 and

13 “(9) under the terms of the plan, such option is
14 not transferable by such individual otherwise than by
15 will or the laws of descent and distribution, and is exer-
16 cisable, during his lifetime, only by him.

17 For purposes of paragraphs (3) to (9), inclusive, where
18 additional terms are contained in an offering made under a
19 plan, such additional terms shall, with respect to options
20 exercised under such offering, be treated as a part of the
21 terms of such plan.

22 “(c) SPECIAL RULE WHERE OPTION PRICE IS BETWEEN
23 85 PERCENT AND 100 PERCENT OF VALUE OF STOCK.—If the
24 option price of a share of stock acquired by an individual pursu-

1 ant to a transfer to which subsection (a) applies was less than
2 100 percent of the fair market value of such share at the
3 time such option was granted, then, in the event of any
4 disposition of such share by him which meets the holding
5 period requirements of subsection (a), or in the event of
6 his death (whenever occurring) while owning such share,
7 there shall be included as compensation (and not as gain
8 upon the sale or exchange of a capital asset) in his gross
9 income, for the taxable year in which falls the date of
10 such disposition or for the taxable year closing with his
11 death, whichever applies, an amount equal to the lesser of—

12 “(1) the excess of the fair market value of the
13 share at the time of such disposition or death over
14 the amount paid for the share under the option, or

15 “(2) the excess of the fair market value of the
16 share at the time the option was granted over the option
17 price.

18 If the option price is not fixed or determinable at the time
19 the option is granted, then for purposes of this subsection,
20 the option price shall be determined as if the option were
21 exercised at such time. In the case of the disposition of
22 such share by the individual, the basis of the share in his
23 hands at the time of such disposition shall be increased by an
24 amount equal to the amount so includible in his gross income.

1 **“SEC. 424. RESTRICTED STOCK OPTIONS.**

2 “(a) IN GENERAL.—Section 421 (a) shall apply with
3 respect to the transfer of a share of stock to an individual
4 pursuant to his exercise after 1949 of a restricted stock
5 option, if—

6 “(1) no disposition of such share is made by him
7 within 2 years from the date of the granting of the
8 option nor within 6 months after the transfer of such
9 share to him, and

10 “(2) at the time he exercises such option—

11 “(A) he is an employee of either the corpora-
12 tion granting such option, a parent or subsidiary
13 corporation of such corporation, or a corporation or
14 a parent or subsidiary corporation of such corpora-
15 tion issuing or assuming a stock option in a trans-
16 action to which section 425 (a) applies, or

17 “(B) he ceased to be an employee of such
18 corporations within the 3-month period preceding
19 the time of exercise.

20 “(b) RESTRICTED STOCK OPTION.—For purposes of
21 this part, the term ‘restricted stock option’ means an option
22 granted after February 26, 1945, and before ~~June 12, 1963~~
23 *January 1, 1964* (or, if it meets the requirements of subsec-
24 tion (c) ~~(4)~~(3), an option granted after ~~June 11, 1963~~

1 *December 31, 1963*), to an individual, for any reason con-
2 nected with his employment by a corporation, if granted by
3 the employer corporation or its parent or subsidiary cor-
4 poration, to purchase stock of any of such corporations, but
5 only if—

6 “(1) at the time such option is granted—

7 “(A) the option price is at least 85 percent of
8 the fair market value at such time of the stock sub-
9 ject to the option, or

10 “(B) in the case of a variable price option, the
11 option price (computed as if the option had been
12 exercised when granted) is at least 85 percent of
13 the fair market value of the stock at the time such
14 option is granted;

15 “(2) such option by its terms is not transferable by
16 such individual otherwise than by will or the laws of
17 descent and distribution, and is exercisable, during his
18 lifetime, only by him;

19 “(3) such individual, at the time the option is
20 granted, does not own stock possessing more than 10
21 percent of the total combined voting power of all classes
22 of stock of the employer corporation or of its parent
23 or subsidiary corporation. This paragraph shall not
24 apply if at the time such option is ~~granted~~, *granted* the
25 option price is at least 110 percent of the fair market

1 value of the stock subject to the option, and such option
2 either by its terms is not exercisable after the expiration
3 of 5 years from the date such option is granted or is exer-
4 cised within one year after August 16, 1954. For
5 purposes of this paragraph, the provisions of section 425
6 (d) shall apply in determining the stock ownership of an
7 individual; and

8 “(4) such option by its terms is not exercisable
9 after the expiration of 10 years from the date such
10 option is granted, if such option has been granted on or
11 after June 22, 1954.

12 “(c) SPECIAL RULES.—

13 “(1) OPTIONS UNDER WHICH OPTION PRICE IS
14 BETWEEN 85 PERCENT AND 95 PERCENT OF VALUE OF
15 STOCK.—If no disposition of a share of stock acquired by
16 an individual on his exercise after 1949 of a restricted
17 stock option is made by him within 2 years from the date
18 of the granting of the option nor within 6 months after
19 the transfer of such share to him, but, at the time the
20 restricted stock option was granted, the option price
21 (computed under subsection (b) (1)) was less than
22 95 percent of the fair market value at such time of such
23 share, then, in the event of any disposition of such share
24 by him, or in the event of his death (whenever occur-
25 ring) while owning such share, there shall be included

1 as compensation (and not as gain upon the sale or ex-
 2 change of a capital asset) in his gross income, for the
 3 taxable year in which falls the date of such disposition
 4 or for the taxable year closing with his death, whichever
 5 applies—

6 “(A) in the case of a share of stock acquired
 7 under an option qualifying under subsection (b)
 8 (1) (A), an amount equal to the amount (if any)
 9 by which the option price is exceeded by the lesser
 10 of—

11 “(i) the fair market value of the share at
 12 the time of such disposition or death, or

13 “(ii) the fair market value of the share
 14 at the time the option was granted; or

15 “(B) in the case of stock acquired under an
 16 option qualifying under subsection (b) (1) (B), an
 17 amount equal to the lesser of—

18 “(i) the excess of the fair market value of
 19 the share at the time of such disposition or
 20 death over the price paid under the option, or

21 “(ii) the excess of the fair market value of
 22 the share at the time the option was granted
 23 over the option price (computed as if the option
 24 had been exercised at such time).

25 In the case of a disposition of such share by the indi-

vidual, the basis of the share in his hands at the time of such disposition shall be increased by an amount equal to the amount so includible in his gross income.

~~“(2) STOCKHOLDER APPROVAL.—~~For purposes of this section, if the grant of an option is subject to approval by stockholders, the date of grant of the option shall be determined as if the option had not been subject to such approval.

~~“(3) (2) VARIABLE PRICE OPTION.—~~For purposes of subsection (b) (1), the term ‘variable price option’ means an option under which the purchase price of the stock is fixed or determinable under a formula in which the only variable is the fair market value of the stock at any time during a period of 6 months which includes the time the option is exercised; except that in the case of options granted after September 30, 1958, such term does not include any such option in which such formula provides for determining such price by reference to the fair market value of the stock at any time before the option is exercised if such value may be greater than the average fair market value of the stock during the calendar month in which the option is exercised.

~~“(4) (3) CERTAIN OPTIONS GRANTED AFTER JUNE 11, 1963~~ *DECEMBER 31, 1963.*—For purposes of subsection (b), an option granted after ~~June 11, 1963,~~ *December*

1 31, 1963, meets the requirements of this paragraph if
2 granted pursuant to—

3 “(A) a binding written contract entered into
4 before ~~June 12, 1963~~, *January 1, 1964*, or

5 “(B) a written plan adopted and approved
6 before ~~June 12, 1963~~, *January 1, 1964*, which
7 (as of ~~June 12, 1963~~, *January 1, 1964*, and as of
8 the date of the granting of the option) —

9 “(i) met the requirements of paragraphs
10 (4) and (5) of section 423 (b), or

11 “(ii) was being administered in a way
12 which did not discriminate in favor of officers,
13 persons whose principal duties consist of super-
14 vising the work of other employees, or highly
15 compensated employees.

16 **“SEC. 425. DEFINITIONS AND SPECIAL RULES.**

17 “(a) CORPORATE REORGANIZATIONS, LIQUIDATIONS,
18 ETC.—For purposes of this part, the term ‘issuing or assum-
19 ing a stock option in a transaction to which section 425 (a)
20 applies’ means a substitution of a new option for the old
21 option, or an assumption of the old option, by an employer
22 corporation, or a parent or subsidiary of such corporation,
23 by reason of a corporate merger, consolidation, acquisition of
24 property or stock, separation, reorganization, or liquidation,
25 if—

“(1) the excess of the aggregate fair market value of the shares subject to the option immediately after the substitution or assumption over the aggregate option price of such shares is not more than the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate option price of such shares, and

“(2) the new option or the assumption of the old option does not give the employee additional benefits which he did not have under the old option.

For purposes of this subsection, the parent-subsidary relationship shall be determined at the time of any such transaction under this subsection.

“(b) ACQUISITION OF NEW STOCK.—For purposes of this part, if stock is received by an individual in a distribution to which section 305, 354, 355, 356, or 1036 (or so much of section 1031 as relates to section 1036) applies, and such distribution was made with respect to stock transferred to him upon his exercise of the option, such stock shall be considered as having been transferred to him on his exercise of such option. A similar rule shall be applied in the case of a series of such distributions.

“(c) DISPOSITION.—

“(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this part, the term ‘disposi-

1 tion' includes a sale, exchange, gift, or a transfer of legal
2 title, but does not include—

3 “(A) a transfer from a decedent to an estate
4 or a transfer by bequest or inheritance;

5 “(B) an exchange to which section 354, 355,
6 356, or 1036 (or so much of section 1031 as relates
7 to section 1036) applies; or

8 “(C) a mere pledge or hypothecation.

9 “(2) JOINT TENANCY.—The acquisition of a share
10 of stock in the name of the employee and another jointly
11 with the right of survivorship or a subsequent transfer
12 of a share of stock into such joint ownership shall not
13 be deemed a disposition, but a termination of such joint
14 tenancy (except to the extent such employee acquires
15 ownership of such stock) shall be treated as a disposition
16 by him occurring at the time such joint tenancy is
17 terminated.

18 “(d) ATTRIBUTION OF STOCK OWNERSHIP.—For pur-
19 poses of this part, in applying the percentage limitations of
20 sections 422 (b) (7), 423 (b) (3), and 424 (b) (3) —

21 “(1) the individual with respect to whom such
22 limitation is being determined shall be considered as
23 owning the stock owned, directly or indirectly, by or
24 for his brothers and sisters (whether by the whole or

1 half blood), spouse, ancestors, and lineal descendants;
2 and

3 “(2) stock owned, directly or indirectly, by or for
4 a corporation, partnership, estate, or trust, shall be con-
5 sidered as being owned proportionately by or for its
6 shareholders, partners, or beneficiaries.

7 “(e) PARENT CORPORATION.—For purposes of this
8 part, the term ‘parent corporation’ means any corporation
9 (other than the employer corporation) in an unbroken chain
10 of corporations ending with the employer corporation if, at
11 the time of the granting of the option, each of the corpora-
12 tions other than the employer corporation owns stock pos-
13 sessing 50 percent or more of the total combined voting
14 power of all classes of stock in one of the other corporations
15 in such chain.

16 “(f) SUBSIDIARY CORPORATION.—For purposes of this
17 part, the term ‘subsidiary corporation’ means any corporation
18 (other than the employer corporation) in an unbroken chain
19 of corporations beginning with the employer corporation
20 if, at the time of the granting of the option, each of the cor-
21 porations other than the last corporation in the unbroken
22 chain owns stock possessing 50 percent or more of the total
23 combined voting power of all classes of stock in one of the
24 other corporations in such chain.

1 “(g) SPECIAL RULE FOR APPLYING SUBSECTIONS

2 (e) AND (f).—In applying subsections (e) and (f) for
3 purposes of section 422 (a) (2), 423 (a) (2), and 424 (a)
4 (2), there shall be substituted for the term ‘employer cor-
5 poration’ wherever it appears in subsections (e) and (f) the
6 term ‘grantor corporation’, or the term ‘corporation issuing
7 or assuming a stock option in a transaction to which section
8 425 (a) applies’, as the case may be.

9 “(h) MODIFICATION, EXTENSION, OR RENEWAL OF
10 OPTION.—

11 “(1) IN GENERAL.—For purposes of this part, if
12 the terms of any option to purchase stock are modified,
13 extended, or renewed, such modification, extension, or
14 renewal shall be considered as the granting of a new
15 option.

16 “(2) SPECIAL RULES FOR SECTIONS 423 AND 424
17 OPTIONS.—

18 “(A) In the case of the transfer of stock pur-
19 suant to the exercise of an option to which section
20 423 or 424 applies and which has been so modified,
21 extended, or renewed, then, except as provided in
22 subparagraph (B), the fair market value of such
23 stock at the time of the granting of such option shall
24 be considered as whichever of the following is the
25 highest:

1 “(i) the fair market value of such stock
2 on the date of the original granting of the
3 option,

4 “(ii) the fair market value of such stock
5 on the date of the making of such modifica-
6 tion, extension, or renewal, or

7 “(iii) the fair market value of such stock
8 at the time of the making of any intervening
9 modification, extension, or renewal.

10 “(B) Subparagraph (A) shall not apply with
11 respect to a modification, extension, or renewal of
12 a restricted stock option before ~~June 12, 1963~~ *Janu-*
13 *ary 1, 1964* (or after ~~June 11, 1963~~, *December 31,*
14 *1963*, if made pursuant to a binding written contract
15 entered into before ~~June 12, 1963~~ *January 1,*
16 *1964*), if the aggregate of the monthly average fair
17 market values of the stock subject to the option
18 for the 12 consecutive calendar months before the
19 date of the modification, extension, or renewal,
20 divided by 12, is an amount less than 80 percent
21 of the fair market value of such stock on the date
22 of the original granting of the option or the date
23 of the making of any intervening modification, ex-
24 tension, or renewal, whichever is the highest.

1 “(3) DEFINITION OF MODIFICATION.—The term
2 ‘modification’ means any change in the terms of the
3 option which gives the employee additional benefits
4 under the option, but such term shall not include a
5 change in the terms of the option—

6 “(A) attributable to the issuance or assump-
7 tion of an option under subsection (a) ; ~~or~~

8 “(B) to permit the option to qualify under
9 sections 422 (b) (6) , 423 (b) (9) , and 424 (b) ~~(2)~~.
10 (2) ; or

11 “(C) in the case of an option not immediately
12 exercisable in full, to accelerate the time at which
13 the option may be exercised.

14 If a restricted stock option is exercisable after the expira-
15 tion of 10 years from the date such option is granted, sub-
16 paragraph (B) shall not apply unless the terms of the
17 option are also changed to make it not exercisable after
18 the expiration of such period.

19 “(i) STOCKHOLDER APPROVAL.—For purposes of this
20 part, if the grant of an option is subject to approval by
21 stockholders, the date of grant of the option shall be deter-
22 mined as if the option had not been subject to such approval.

23 “~~(i)~~ (j) CROSS REFERENCES.—

 “**For provisions requiring the reporting of certain acts
with respect to a qualified stock option, options granted
under employer stock purchase plans, or a restricted
stock option, see section 6039.**”

(b) ADMINISTRATIVE PROVISIONS.—

(1) REPORTING REQUIREMENT FOR CERTAIN OPTIONS.—Subpart A of part III of subchapter A of chapter 61 (relating to information returns) is amended by renumbering section 6039 as 6040, and by inserting after section 6038 the following new section:

“SEC. 6039. INFORMATION REQUIRED IN CONNECTION WITH CERTAIN OPTIONS.

“(a) REQUIREMENT OF REPORTING.—Every corporation—

“(1) which in any calendar year transfers a share of stock to any person pursuant to such person’s exercise of a qualified stock option or a restricted stock option, or

“(2) which in any calendar year records (or has by its agent recorded) a transfer of the legal title of a share of stock—

“(A) acquired by the transferor pursuant to his exercise of an option described in section 423 (c) (relating to special rule where option price is between 85 percent and 100 percent of value of stock), or

“(B) acquired by the transferor pursuant to his exercise of a restricted stock option described in section 424 (c) (1) (relating to options under

1 which option price is between 85 percent and 95
2 percent of value of stock),

3 shall, for such calendar year, make a return at such time
4 and in such manner, and setting forth such information, as
5 the Secretary or his delegate may by regulations prescribe.
6 For purposes of the preceding sentence, any option which a
7 corporation treats as a qualified stock option, a restricted
8 stock option, or an option granted under an employee stock
9 purchase plan, shall be deemed to be such an option. A
10 return is required by reason of a transfer described in para-
11 graph (2) of a share only with respect to the first transfer
12 of such share by the person who exercised the option.

13 “(b) STATEMENTS TO BE FURNISHED TO PERSONS
14 WITH RESPECT TO WHOM INFORMATION IS FURNISHED.—
15 Every corporation making a return under subsection
16 (a) shall furnish to each person whose name is set forth
17 in such return a written statement setting forth such informa-
18 tion as the Secretary or his delegate may by regulations
19 prescribe. The written statement required under the preced-
20 ing sentence shall be furnished to the person on or before
21 January 31 of the year following the calendar year for which
22 the return under subsection (a) was made.

23 “(c) IDENTIFICATION OF STOCK.—Any corporation
24 which transfers any share of stock pursuant to the exercise
25 of an option described in subsection (a) (2) shall identify

1 such stock in a manner adequate to carry out the purposes
2 of this section.

3 “(d) CROSS REFERENCES.—

“For definition of—

“(1) The term ‘qualified stock option’, see section 422(b).

“(2) The term ‘employee stock purchase plan’, see section 423(b).

“(3) The term ‘restricted stock option’, see section 424(b).”

4 (2) PENALTIES FOR FAILURE TO FILE INFORMA-
5 TION RETURNS.—Section 6652 (a) (relating to failure
6 to file certain information returns) is amended to read
7 as follows:

8 ~~“(a) RETURNS RELATING TO PAYMENTS OF DIVI-~~
9 ~~DENDS, ETC., AND CERTAIN TRANSFERS OF STOCK.—In~~
10 ~~the case of each failure to file a statement of—~~

11 ~~“(1) the aggregate amount of payments to another~~
12 ~~person required by section 6042(a)(1) (relating to~~
13 ~~payments of dividends aggregating \$10 or more), see-~~
14 ~~tion 6044(a)(1) (relating to payments of patronage~~
15 ~~dividends aggregating \$10 or more), or section 6049~~
16 ~~(a)(1) (relating to payments of interest aggregating~~
17 ~~\$10 or more), or~~

18 ~~“(2) the transfer of stock or the transfer of legal~~
19 ~~title of stock required by section 6039 (relating to~~
20 ~~information in connection with certain options),~~
21 ~~on the date prescribed therefor (determined with regard to~~

1 any extension of time for filing); unless it is shown that such
 2 failure is due to reasonable cause and not to willful neglect,
 3 there shall be paid (upon notice and demand by the Secre-
 4 tary or his delegate and in the same manner as tax); by the
 5 person failing to so file the statement, \$10 for each such
 6 statement not so filed, but the total amount imposed on the
 7 delinquent person for all such failures during any calendar
 8 year shall not exceed \$25,000."

9 “(a) RETURNS RELATING TO PAYMENTS OF DIVI-
 10 DENDS, ETC. AND CERTAIN TRANSFERS OF STOCK.—In
 11 the case of each failure—

12 “(1) to file a statement of the aggregate amount
 13 of payments to another person required by section 6042
 14 (a)(1) (relating to payments of dividends aggregating
 15 \$10 or more), section 6044(a)(1) (relating to pay-
 16 ments of patronage dividends aggregating \$10 or more),
 17 or section 6049(a)(1) (relating to payments of interest
 18 aggregating \$10 or more),

19 “(2) to make a return required by section 6039(a)
 20 (relating to reporting information in connection with
 21 certain options) with respect to a transfer of stock or a
 22 transfer of legal title to stock, or

23 “(3) to make a return required by section 6052(a)
 24 (relating to reporting payment of wages in the form of

1 *group-term life insurance) with respect to group-term*
 2 *life insurance on the life of an employee,*
 3 *on the date prescribed therefor (determined with regard to*
 4 *any extension of time for filing), unless it is shown that such*
 5 *failure is due to reasonable cause and not to willful neglect,*
 6 *there shall be paid (upon notice and demand by the Secre-*
 7 *tary or his delegate and in the same manner as tax), by*
 8 *the person failing to file a statement referred to in paragraph*
 9 *(1) or failing to make a return referred to in paragraph*
 10 *(2) or (3), \$10 for each such failure, but the total amount*
 11 *imposed on the delinquent person for all such failures during*
 12 *any calendar year shall not exceed \$25,000."*

13 (3) PENALTIES FOR FAILURE TO FURNISH
 14 STATEMENTS TO PERSONS WITH RESPECT TO WHOM
 15 RETURNS ARE FILED.—Section 6678 (relating to failure
 16 to furnish certain statements) is amended—

17 (A) by striking out "section 6042 (c)," and
 18 inserting in lieu thereof "section 6039 (b), 6042
 19 (c)," ; and

20 (B) by striking out "section 6042 (a) (1)," and
 21 inserting in lieu thereof "section 6039 (a),
 22 6042 (a) (1),".

23 (c) TECHNICAL AMENDMENTS.—

24 (1) Section 402 (a) (3) (B) (relating to tax-

1 ability of beneficiary of employees' trust) is amended
 2 by striking out "section 421 (d) (2) and (3)" and in-
 3 serting in lieu thereof "subsections (e) and (f) of
 4 section 425".

5 (2) The last sentence of subparagraph (B) of
 6 section 691 (c) (2) (relating to allowance of deduction
 7 for estate tax in case of items constituting income in
 8 respect of a decedent) is amended to read as follows:
 9 "Such net value shall be determined with respect to the
 10 provisions of section 421 (c) (2), relating to the deduc-
 11 tion for estate tax with respect to stock options to which
 12 part II of subchapter D applies."

13 (d) CLERICAL AMENDMENTS.—

14 (1) The table of parts for subchapter D of chapter
 15 1 is amended by striking out

"Part II. Miscellaneous provisions."

16 and inserting in lieu thereof the following:

"Part II. Certain stock options."

17 (2) The table of sections for subpart A of part
 18 III of subchapter A of chapter 61 is amended by
 19 striking out

"Sec. 6039. Cross references."

20 and inserting in lieu thereof:

"Sec. 6039. Information required in connection with certain
 options.

"Sec. 6040. Cross references."

1 ~~(c) EFFECTIVE DATE.—~~

2 ~~(1) Except as provided in paragraph (2),~~
 3 the amendments made by this section shall apply to
 4 taxable years ending after June 11, 1963.

5 ~~(2) The amendments made by subsection (b) shall~~
 6 apply to stock transferred pursuant to options exercised
 7 on or after January 1, 1964.

8 *(e) EFFECTIVE DATES AND TRANSITION RULES.—*

9 *(1) Except as provided in paragraphs (2) and*
 10 *(3), the amendments made by this section shall apply*
 11 *to taxable years ending after December 31, 1963.*

12 *(2) The amendments made by paragraphs (1) and*
 13 *(3) of subsection (b), and paragraph (2) of section*
 14 *6652(a) of the Internal Revenue Code of 1954 (as*
 15 *amended by paragraph (2) of subsection (b)), shall*
 16 *apply to stock transferred pursuant to options exercised*
 17 *on or after January 1, 1964.*

18 *(3) In the case of an option granted after Decem-*
 19 *ber 31, 1963, and before January 1, 1965—*

20 *(A) paragraphs (1) and (2) of section 422*
 21 *(b) of the Internal Revenue Code of 1954 (as*
 22 *added by subsection (a)) shall not apply, and*

23 *(B) paragraph (1) of section 425(h) of such*
 24 *Code (as added by subsection (a)) shall not apply*
 25 *to any change in the terms of such option made*
 26 *before January 1, 1965, to permit such option to*

1 *qualify under paragraphs (3), (4), and (5) of*
 2 *such section 422(b).*

3 **SEC. 223. INSTALLMENT SALES BY DEALERS IN PERSONAL**
 4 **PROPERTY.**

5 *(a) INSTALLMENT PLANS.—Section 453(a) (relating*
 6 *to reporting of income by dealers in personal property from*
 7 *sales on the installment plan) is amended to read as follows:*

8 *“(a) DEALERS IN PERSONAL PROPERTY.—*

9 *“(1) GENERAL RULE.—Under regulations pre-*
 10 *scribed by the Secretary or his delegate, a person who*
 11 *regularly sells or otherwise disposes of personal property*
 12 *on the installment plan may return as income therefrom*
 13 *in any taxable year that proportion of the installment*
 14 *payments actually received in that year which the gross*
 15 *profit, realized or to be realized when payment is com-*
 16 *pleted, bears to the total contract price.*

17 *“(2) INSTALLMENT PLAN.—For purposes of para-*
 18 *graph (1), the term ‘installment plan’ includes any plan*
 19 *which provides for the payment by the purchaser for*
 20 *the personal property sold to him in a series of periodic*
 21 *installments of an agreed part or installment of the debt*
 22 *due the seller.*

23 *“(3) TOTAL CONTRACT PRICE.—For purposes of*
 24 *paragraph (1), the term ‘total contract price’ includes*
 25 *all charges relative to the sale of the personal property,*

1 including the time price differential which represents the
 2 amount paid or payable for the privilege of purchasing
 3 the personal property to be paid for by the purchaser in
 4 installments over a period of time.”

5 (b) *EFFECTIVE DATE.*—The amendment made by sub-
 6 section (a) shall apply to taxable years beginning after
 7 December 31, 1963.

8 **SEC. 224. TIMING OF DEDUCTIONS AND CREDITS IN CER-**
 9 **TAIN CASES WHERE ASSERTED LIABILITIES**
 10 **ARE CONTESTED.**

11 (a) *TAXABLE YEAR OF DEDUCTION OR CREDIT.*—

12 (1) Section 461 (relating to general rule for taxable
 13 year of deduction) is amended by adding at the end
 14 thereof the following new subsection:

15 “(f) *CONTESTED LIABILITIES.*—If—

16 “(1) the taxpayer contests an asserted liability,

17 “(2) the taxpayer transfers money or other property
 18 to provide for the satisfaction of the asserted liability,

19 “(3) the contest with respect to the asserted liability
 20 exists after the time of the transfer, and

21 “(4) but for the fact that the asserted liability is con-
 22 tested, a deduction or credit would be allowed for the tax-
 23 able year of the transfer (or for an earlier taxable year),

24 then the deduction or credit shall be allowed for the taxable
 25 year of the transfer.”

1 (2) *Section 43 of the Internal Revenue Code of*
2 *1939 (relating to period for which deductions and*
3 *credits taken) is amended by adding at the end thereof*
4 *the following new sentence: "If—*

5 *"(1) the taxpayer contests an asserted liability,*

6 *"(2) the taxpayer transfers money or other prop-*
7 *erty to provide for the satisfaction of the asserted*
8 *liability,*

9 *"(3) the contest with respect to the asserted liability*
10 *exists after the time of the transfer, and*

11 *"(4) but for the fact that the asserted liability is*
12 *contested, a deduction or credit would be allowed for*
13 *the taxable year of the transfer (or for an earlier tax-*
14 *able year),*

15 *then the deduction or credit shall be allowed for the taxable*
16 *year of the transfer."*

17 (b) *EFFECTIVE DATES.—Except as provided in sub-*
18 *sections (c) and (d)—*

19 (1) *the amendment made by subsection (a)(1)*
20 *shall apply to taxable years beginning after December*
21 *31, 1953, and ending after August 16, 1954, and*

22 (2) *the amendment made by subsection (a)(2)*
23 *shall apply to taxable years to which the Internal*
24 *Revenue Code of 1939 applies.*

1 (c) *ELECTION AS TO TRANSFERS IN TAXABLE*
2 *YEARS BEGINNING BEFORE JANUARY 1, 1964.—*

3 (1) *The amendments made by subsection (a) shall*
4 *not apply to any transfer of money or other property*
5 *described in subsection (a) made in a taxable year*
6 *beginning before January 1, 1964, if the taxpayer elects,*
7 *in the manner provided by regulations prescribed by the*
8 *Secretary of the Treasury or his delegate, to have this*
9 *paragraph apply. Such an election—*

10 (A) *must be made within one year after the*
11 *date of the enactment of this Act,*

12 (B) *may not be revoked after the expiration of*
13 *such one-year period, and*

14 (C) *shall apply to all transfers described in*
15 *the first sentence of this paragraph (other than*
16 *transfers described in paragraph (2)).*

17 *In the case of any transfer to which this paragraph*
18 *applies, the deduction or credit shall be allowed only for*
19 *the taxable year in which the contest with respect to such*
20 *transfer is settled.*

21 (2) *Paragraph (1) shall not apply to any transfer*
22 *if the assessment of any deficiency which would result*
23 *from the application of the election in respect of such*
24 *transfer is, on the date of the election under paragraph*

1 (1), prevented by the operation of any law or rule of
2 law.

3 (3) If the taxpayer makes an election under para-
4 graph (1), and if, on the date of such election, the
5 assessment of any deficiency which results from the appli-
6 cation of the election in respect of any transfer is not
7 prevented by the operation of any law or rule of law,
8 the period within which assessment of such deficiency may
9 be made shall not expire earlier than 2 years after the
10 date of the enactment of this Act.

11 (d) CERTAIN OTHER TRANSFERS IN TAXABLE
12 YEARS BEGINNING BEFORE JANUARY 1, 1964.—The
13 amendments made by subsection (a) shall not apply to any
14 transfer of money or other property described in subsection
15 (a) made in a taxable year beginning before January 1,
16 1964, if—

17 (1) no deduction or credit has been allowed in
18 respect of such transfer for any taxable year before the
19 taxable year in which the contest with respect to such
20 transfer is settled, and

21 (2) refund or credit of any overpayment which
22 would result from the application of such amendments
23 to such transfer is prevented by the operation of any
24 law or rule of law.

25 In the case of any transfer to which this subsection applies,

1 *the deduction or credit shall be allowed for the taxable year*
 2 *in which the contest with respect to such transfer is settled.*

3 **SEC. ~~245~~ 225. INTEREST ON CERTAIN DEFERRED PAY-**
 4 **MENTS.**

5 (a) **IN GENERAL.**—Part III of subchapter E of chapter
 6 1 (relating to accounting periods and methods of account-
 7 ing) is amended by adding at the end thereof the following
 8 new section:

9 **“SEC. 483. INTEREST ON CERTAIN DEFERRED PAYMENTS.**

10 **“(a) AMOUNT CONSTITUTING INTEREST.**—For pur-
 11 poses of this title, in the case of any contract for the sale
 12 or exchange of property there shall be treated as interest
 13 that part of a payment to which this section applies which
 14 bears the same ratio to the amount of such payment as the
 15 total unstated interest under such contract bears to the total
 16 of the payments to which this section applies which are due
 17 under such contract.

18 **“(b) TOTAL UNSTATED INTEREST.**—For purposes of
 19 this section, the term ‘total unstated interest’ means, with
 20 respect to a contract for the sale or exchange of property,
 21 an amount equal to the excess of—

22 **“(1)** the sum of the payments to which this sec-
 23 tion applies which are due under the contract, over

24 **“(2)** the sum of the present values of such pay-

1 ments and the present values of any interest payments
2 due under the contract.

3 For purposes of paragraph (2), the present value of a pay-
4 ment shall be determined, as of the date of the sale or ex-
5 change, by discounting such payment at the rate, and in the
6 manner, provided in regulations prescribed by the Secretary
7 or his delegate. Such regulations shall provide for discount-
8 ing on the basis of 6-month brackets and shall provide that
9 the present value of any interest payment due not more than
10 6 months after the date of the sale or exchange is an amount
11 equal to 100 percent of such payment.

12 “(c) PAYMENTS TO WHICH SECTION APPLIES.—

13 “(1) IN GENERAL.—Except as provided in sub-
14 section (f), this section shall apply to any payment on
15 account of the sale or exchange of property which con-
16 stitutes part or all of the sales price and which is due
17 more than 6 months after the date of such sale or ex-
18 change under a contract—

19 “(A) under which some or all of the payments
20 are due more than one year after the date of such
21 sale or exchange, and

22 “(B) under which, using a rate provided by
23 regulations prescribed by the Secretary or his dele-
24 gate for purposes of this subparagraph, there is total
25 unstated interest.

1 Any rate prescribed for determining whether there is
 2 total unstated interest for purposes of subparagraph (B)
 3 shall be at least one percentage point lower than the
 4 rate prescribed for purposes of subsection (b) (2).

5 “(2) TREATMENT OF EVIDENCE OF INDEBTED-
 6 NESS.—For purposes of this section, an evidence of in-
 7 debtedness of the purchaser given in consideration for
 8 the sale or exchange of property shall not be considered
 9 a payment, and any payment due under such evidence
 10 of indebtedness shall be treated as due under the contract
 11 for the sale or exchange.

12 “(d) PAYMENTS THAT ARE INDEFINITE AS TO TIME,
 13 LIABILITY, OR AMOUNT.—In the case of a contract for the
 14 sale or exchange of property under which the liability for,
 15 or the amount or due date of, any portion of a payment can-
 16 not be determined at the time of the sale or exchange, this
 17 section shall be separately applied to such portion as if it
 18 (and any amount of interest attributable to such portion)
 19 were the only payments due under the contract; and such
 20 determinations of liability, amount, and due date shall be
 21 made at the time payment of such portion is made.

22 “(e) CHANGE IN TERMS OF CONTRACT.—If the lia-
 23 bility for, or the amount or due date of, any payment (includ-
 24 ing interest) under a contract for the sale or exchange of

1 property is changed, the 'total unstated interest' under the
2 contract shall be recomputed and allocated (with adjustment
3 for prior interest (including unstated interest) payments)
4 under regulations prescribed by the Secretary or his delegate.

5 “(f) EXCEPTIONS AND LIMITATIONS.—

6 “(1) SALES PRICE OF \$3,000 OR LESS.—This sec-
7 tion shall not apply to any payment on account of the
8 sale or exchange of property if it can be determined at
9 the time of such sale or exchange that the sales price
10 cannot exceed \$3,000.

11 “(2) CARRYING CHARGES.—In the case of the pur-
12 chaser, the tax treatment of amounts paid on account
13 of the sale or exchange of property shall be made with-
14 out regard to this section if any such amounts are treated
15 under section 163 (b) as if they included interest.

16 “(3) TREATMENT OF SELLER.—In the case of the
17 seller, the tax treatment of any amounts received on
18 account of the sale or exchange of property shall be
19 made without regard to this section if no part of any
20 gain on such sale or exchange would be considered as
21 gain from the sale or exchange of a capital asset or prop-
22 erty described in section 1231.

23 “(4) SALES OR EXCHANGES OF PATENTS.—This
24 section shall not apply to any payments made pursuant

1 to a transfer described in section 1235 (a) (relating to
2 sale or exchange of patents).

3 “(5) ANNUITIES.—This section shall not apply to
4 any amount the liability for which depends in whole or
5 in part on the life expectancy of one or more individ-
6 uals and which constitutes an amount received as an
7 annuity to which section 72 applies.”

8 (b) CLERICAL AMENDMENT.—The table of sections for
9 such part is amended by adding at the end thereof the fol-
10 lowing new item:

“Sec. 483. Interest on certain deferred payments.”

11 ~~(c) CERTAIN CARRYING CHARGES.—~~The first sen-
12 tence of section ~~163(b)(1)~~ (relating to installment pur-
13 chases where interest charge is not separately stated) is
14 amended by striking out “personal property is purchased”
15 and inserting in lieu thereof “personal property or services
16 are purchased”.

17 ~~(d) EFFECTIVE DATES.—~~The amendments made by
18 subsections ~~(a)~~ and ~~(b)~~ shall apply to payments made after
19 December 31, 1963, on account of sales or exchanges of
20 property occurring after June 30, 1963. The amendment
21 made by subsection ~~(c)~~ shall apply to payments made dur-
22 ing taxable years beginning after December 31, 1963.

23 (c) EFFECTIVE DATE.—The amendments made by sub-

1 *sections (a) and (b) shall apply to payments made after De-*
 2 *cember 31, 1963, on account of sales or exchanges of property*
 3 *occurring after June 30, 1963, other than any sale or ex-*
 4 *change made pursuant to a binding written contract (includ-*
 5 *ing an irrevocable written option) entered into before July 1,*
 6 *1963.*

7 **SEC. ~~246~~ 226. PERSONAL HOLDING COMPANIES.**

8 **(a) PERSONAL HOLDING COMPANY TAX RATE.—**

9 Section 541 (relating to imposition of personal holding
 10 company tax) is amended by striking out “tax equal to”
 11 and all that follows and inserting in lieu thereof: “tax equal
 12 to 70 percent of the undistributed personal holding company
 13 income.”

14 **(b) DEFINITION OF PERSONAL HOLDING COMPANY.—**

15 Paragraph (1) of section 542 (a) (relating to the gross
 16 income requirement for personal holding company purposes)
 17 is amended to read as follows:

18 “(1) **ADJUSTED ORDINARY GROSS INCOME RE-**
 19 **QUIREMENT.**—At least 60 percent of its adjusted
 20 ordinary gross income (as defined in section 543 (b)
 21 (2)) for the taxable year is personal holding company
 22 income (as defined in section 543 (a)), and”.

23 **(c) EXCLUDED CORPORATIONS.—**

24 **(1) DOMESTIC BUILDING AND LOAN ASSOCIA-**
 25 **TIONS.**—Paragraph (2) of section 542 (c) (relating to

corporations excepted from the definition of personal holding company) is amended to read as follows:

“(2) a bank as defined in section 581, or a domestic building and loan association within the meaning of section 7701 (a) (19) without regard to subparagraphs (D) and (E) thereof;”.

(2) LENDING AND FINANCE COMPANIES.—Section 542 (c) is amended by striking out paragraphs (6), (7), (8), and (9), by renumbering paragraphs (10) and (11) as paragraphs (7) and (8), and by inserting after paragraph (5) the following new paragraph:

“(6) a lending or finance company if—

“(A) 60 percent or more of its ordinary gross income (as defined in section 543 (b) (1)) is derived directly from the active and regular conduct of a lending or finance business;

“(B) the personal holding company income for the taxable year (computed without regard to income described in subsection (d) (3) and income derived directly from the active and regular conduct of a lending or finance business, and computed by including as personal holding company income the entire amount of the gross income from rents, royalties, produced film rents, and compensation for use of corporate property by sharehold-

1 ers]; ~~plus the interest described in section 543~~
 2 ~~(b) (2) (C)~~, is not more than 20 percent of the
 3 ordinary gross income;

4 “(C) the sum of the deductions which are
 5 directly allocable to the active and regular con-
 6 duct of its lending or finance business equals or
 7 exceeds the sum of—

8 “(i) 15 percent of so much of the ordinary
 9 gross income derived therefrom as does not
 10 exceed \$500,000, plus

11 “(ii) 5 percent of so much of the ordinary
 12 gross income derived therefrom as exceeds
 13 \$500,000 but not \$1,000,000; and

14 “(D) the loans to a person who is a share-
 15 holder in such company during the taxable year
 16 by or for whom 10 percent or more in value of
 17 its outstanding stock is owned directly or indirectly
 18 (including, in the case of an individual, stock owned
 19 by members of his family as defined in section 544
 20 (a) (2)), outstanding at any time during such year
 21 do not exceed \$5,000 in principal amount;”.

22 (3) SPECIAL RULES FOR SECTION 542(C)(6).—Sec-
 23 tion 542 is amended by adding at the end thereof the
 24 following new subsection:

1 “(d) SPECIAL RULES FOR APPLYING SUBSECTION
2 (c) (6).—

3 “(1) LENDING OR FINANCE BUSINESS DEFINED.—

4 “(A) IN GENERAL.—Except as provided in
5 subparagraph (B), for purposes of subsection (c)
6 (6), the term ‘lending or finance business’ means
7 a business of—

8 “(i) making loans, ~~or~~

9 “(ii) purchasing or discounting accounts
10 receivable, notes, or installment ~~obligations.~~
11 *obligations, or*

12 “(iii) *rendering services or making fa-*
13 *cilities available to another corporation which is*
14 *engaged in the lending or finance business (with-*
15 *in the meaning of this subparagraph), but only*
16 *if such other corporation and the corporation*
17 *rendering services or making facilities available*
18 *are members of the same affiliated group (as*
19 *defined in section 1504).*

20 “(B) EXCEPTIONS.—For purposes of subpara-
21 graph (A), the term ‘lending or finance business’
22 does not include the business of—

23 “(i) making loans, or purchasing or dis-
24 counting accounts receivable, notes, or install-

1 ment obligations, if (at the time of the loan,
2 purchase, or discount) the remaining maturity
3 exceeds 60 months, or

4 “(ii) making loans evidenced by, or pur-
5 chasing, certificates of indebtedness issued in a
6 series, under a trust indenture, and in registered
7 form or with interest coupons attached.

8 For purposes of clause (i), the remaining maturity
9 shall be treated as including any period for which
10 there may be a renewal or extension under the terms
11 of an option exercisable by the borrower.

12 “(2) BUSINESS DEDUCTIONS.—For purposes of
13 subsection (c) (6) (C), the deductions which may be
14 taken into account shall include only—

15 “(A) deductions which are allowable only by
16 reason of section 162 or section 404, except there
17 shall not be included any such deduction in respect
18 of compensation for personal services rendered by
19 shareholders (including members of the share-
20 holder’s family as described in section 544 (a) (2)),
21 and

22 “(B) deductions allowable under section 167,
23 and deductions allowable under section 164 for
24 real property taxes, but in either case only to the
25 extent that the property with respect to which such

deductions are allowable is used directly in the active and regular conduct of the lending or finance business.

~~“(3) INCOME RECEIVED FROM CERTAIN DOMESTIC SUBSIDIARIES.—For purposes of subsection (c)(6)(B), in the case of a lending company which is authorized to engage in and is actively and regularly engaged in the small loan business (consumer finance business) under one or more State statutes providing for the direct regulation of such business, and which meets the requirements of subsection (c)(6)(A), there shall not be treated as personal holding company income the lawful income received from domestic subsidiary corporations (of which stock possessing at least 80 percent of the voting power of all classes of stock and of which at least 80 percent of each class of nonvoting stock is owned directly by such lending company) which are themselves excepted under subsection (c)(6).”~~

“(3) INCOME RECEIVED FROM CERTAIN AFFILIATED CORPORATIONS.—For purposes of subsection (c)(6)(B), in the case of a lending or finance company which meets the requirements of subsection (c)(6)(A), there shall not be treated as personal holding company income the lawful income received from a corporation which meets the requirements of subsection (c)(6) and which

1 *is a member of the same affiliated group (as defined in*
 2 *section 1504) of which such company is a member.*

3 (d) PERSONAL HOLDING COMPANY INCOME.—Subsec-
 4 tions (a) and (b) of section 543 (relating to personal
 5 holding company income) are amended to read as follows:

6 “(a) GENERAL RULE.—For purposes of this subtitle,
 7 the term ‘personal holding company income’ means the
 8 portion of the adjusted ordinary gross income which consists
 9 of:

10 “(1) DIVIDENDS, ETC.—Dividends, interest, royal-
 11 ties (other than mineral, oil, or gas royalties or copy-
 12 right royalties), and annuities. This paragraph shall
 13 not apply to—

14 “(A) interest constituting rent (as defined in
 15 subsection (b) (3)),

16 “(B) interest on amounts set aside in a re-
 17 serve fund under section 511 or 607 of the Mer-
 18 chant Marine Act, 1936, and

19 “(C) a dividend distribution of divested stock
 20 (as defined in subsection (e) of section 1111), but
 21 only if the stock with respect to which the distribu-
 22 tion is made was owned by the distributee on Sep-
 23 tember 6, 1961, or was owned by the distributee
 24 for at least 2 years before the date on which the

antitrust order (as defined in subsection (d) of section 1111) was entered.

“(2) RENTS.—The adjusted income from rents; except that such adjusted income shall not be included if—

“(A) such adjusted income constitutes 50 percent or more of the adjusted ordinary gross income, and

~~“(B) the personal holding company income for the taxable year (computed without regard to this paragraph and paragraph (6), and computed by including as personal holding company income copyright royalties and the adjusted income from mineral, oil, and gas royalties) is not more than 10 percent of the ordinary gross income.~~

“(B) the sum of—

“(i) the dividends paid during the taxable year (determined under section 562),

“(ii) the dividends considered as paid on the last day of the taxable year under section 563(c) (as limited by the second sentence of section 563(b)), and

“(iii) the consent dividends for the taxable year (determined under section 565),

1 *equals or exceeds the amount, if any, by which the*
 2 *personal holding company income for the taxable*
 3 *year (computed without regard to this paragraph*
 4 *and paragraph (6), and computed by including as*
 5 *personal holding company income copyright royal-*
 6 *ties and the adjusted income from mineral, oil,*
 7 *and gas royalties) exceeds 10 percent of the ordi-*
 8 *nary gross income.*

9 “(3) MINERAL, OIL, AND GAS ROYALTIES.—The
 10 adjusted income from mineral, oil, and gas royalties;
 11 except that such adjusted income shall not be included
 12 if—

13 “(A) such adjusted income constitutes 50 per-
 14 cent or more of the adjusted ordinary gross income,

15 “(B) the personal holding company income for
 16 the taxable year (computed without regard to this
 17 paragraph, and computed by including as personal
 18 holding company income copyright royalties and
 19 the adjusted income from rents) is not more than
 20 10 percent of the ordinary gross income, and

21 “(C) the sum of the deductions which are al-
 22 lowable under section 162 (relating to trade or busi-
 23 ness expenses) other than—

1 “(i) deductions for compensation for per-
2 sonal services rendered by the shareholders,
3 and

4 “(ii) deductions which are specifically al-
5 lowable under sections other than section 162,
6 equals or exceeds 15 percent of the adjusted ordi-
7 nary gross income.

8 “(4) COPYRIGHT ROYALTIES.—Copyright royalties;
9 except that copyright royalties shall not be included if—

10 “(A) such royalties (exclusive of royalties
11 received for the use of, or right to use, copyrights
12 or interests in copyrights on works created in whole,
13 or in part, by any shareholder) constitute 50 per-
14 cent or more of the ordinary gross income,

15 “(B) the personal holding company income
16 for the taxable year computed—

17 “(i) without regard to copyright royalties,
18 other than royalties received for the use of, or
19 right to use, copyrights or interests in copyrights
20 in works created in whole, or in part, by any
21 shareholder owning more than 10 percent of
22 the total outstanding capital stock of the cor-
23 poration,

24 “(ii) without regard to dividends from any

1 corporation in which the taxpayer owns at least
2 50 percent of all classes of stock entitled to
3 vote and at least 50 percent of the total value
4 of all classes of stock and which corporation
5 meets the requirements of this subparagraph
6 and subparagraphs (A) and (C), and

7 “(iii) by including as personal holding
8 company income the adjusted income from
9 rents and the adjusted income from mineral,
10 oil, and gas royalties,

11 is not more than 10 percent of the ordinary gross
12 income, and

13 “(C) the sum of the deductions which are
14 properly allocable to such royalties and which are
15 allowable under section 162, other than—

16 “(i) deductions for compensation for per-
17 sonal services rendered by the shareholders,

18 “(ii) deductions for royalties paid or ac-
19 crued, and

20 “(iii) deductions which are specifically
21 allowable under sections other than section 162,
22 equals or exceeds 25 percent of the amount by
23 which the ordinary gross income exceeds the sum
24 of the royalties paid or accrued and the amounts

allowable as deductions under section 167 (relating to depreciation) with respect to copyright royalties.

For purposes of this subsection, the term 'copyright royalties' means compensation, however designated, for the use of, or the right to use, copyrights in works protected by copyright issued under title 17 of the United States Code (other than by reason of section 2 or 6 thereof) and to which copyright protection is also extended by the laws of any country other than the United States of America by virtue of any international treaty, convention, or agreement, or interests in any such copyrighted works, and includes payments from any person for performing rights in any such copyrighted work and payments (other than produced film rents as defined in paragraph (5) (B)) received for the use of, or right to use, films. For purposes of this paragraph, the term 'shareholder' shall include any person who owns stock within the meaning of section 544.

“(5) PRODUCED FILM RENTS.—

“(A) Produced film rents; except that such rents shall not be included if such rents constitute 50 percent or more of the ordinary gross income.

“(B) For purposes of this section, the term 'produced film rents' means payments received with

1 respect to an interest in a film for the use of, or
2 right to use, such film, but only to the extent that
3 such interest was acquired before substantial com-
4 pletion of production of such film.

5 “(6) USE OF CORPORATION PROPERTY BY SHARE-
6 HOLDER.—Amounts received as compensation (however
7 designated and from whomsoever received) for the use
8 of, or right to use, property of the corporation in any
9 case where, at any time during the taxable year, 25
10 percent or more in value of the outstanding stock of the
11 corporation is owned, directly or indirectly, by or for an
12 individual entitled to the use of the property; whether
13 such right is obtained directly from the corporation or
14 by means of a sublease or other arrangement. This
15 paragraph shall apply only to a corporation which has
16 personal holding company income for the taxable year
17 (computed without regard to this paragraph and para-
18 graph (2), and computed by including as personal
19 holding company income copyright royalties and the
20 adjusted income from mineral, oil, and gas royalties)
21 in excess of 10 percent of its ordinary gross income.

22 “(7) PERSONAL SERVICE CONTRACTS.—

23 “(A) Amounts received under a contract un-
24 der which the corporation is to furnish personal
25 services; if some person other than the corporation

has the right to designate (by name or by description) the individual who is to perform the services, or if the individual who is to perform the services is designated (by name or by description) in the contract; and

“(B) amounts received from the sale or other disposition of such a contract.

This paragraph shall apply with respect to amounts received for services under a particular contract only if at some time during the taxable year 25 percent or more in value of the outstanding stock of the corporation is owned, directly or indirectly, by or for the individual who has performed, is to perform, or may be designated (by name or by description) as the one to perform, such services.

“(8) ESTATES AND TRUSTS.—Amounts includible in computing the taxable income of the corporation under part I of subchapter J (sec. 641 and following, relating to estates, trusts, and beneficiaries).

“(b) DEFINITIONS.—For purposes of this part—

“(1) ORDINARY GROSS INCOME.—The term ‘ordinary gross income’ means the gross income determined by excluding—

1 “(A) all gains from the sale or other disposi-
2 tion of capital assets, and

3 “(B) all gains (other than those referred to in
4 subparagraph (A)) from the sale or other disposi-
5 tion of property described in section 1231 (b) .

6 “(2) ADJUSTED ORDINARY GROSS INCOME.—The
7 term ‘adjusted ordinary gross income’ means the ordinary
8 gross income adjusted as follows:

9 “(A) RENTS.—From the gross income from
10 rents (as defined in the second sentence of para-
11 graph (3) of this subsection) subtract the amount
12 allowable as deductions for—

13 “(i) exhaustion, wear and tear, obsoles-
14 cence, and ~~amortization~~, *amortization of prop-*
15 *erty other than tangible personal property which*
16 *is not customarily retained by any one lessee for*
17 *more than three years,*

18 “(ii) property taxes,

19 “(iii) interest, and

20 “(iv) rent,

21 to the extent allocable, under regulations prescribed
22 by the Secretary or his delegate, to such gross in-
23 come from rents. The amount subtracted under
24 this subparagraph shall not exceed such gross in-
25 come from rents.

1 “(B) MINERAL ROYALTIES, ETC.—From the
 2 gross income from mineral, oil, and gas royalties
 3 described in ~~subsection (a)(3)~~ *paragraph (4)*, and
 4 from the gross income from working interests in an
 5 oil or gas well, subtract the amount allowable as
 6 deductions for—

7 “(i) exhaustion, wear and tear, obsoles-
 8 cence, amortization, and depletion,

9 “(ii) property and severance taxes,

10 “(iii) interest, and

11 “(iv) rent,

12 to the extent allocable, under regulations prescribed
 13 by the Secretary or his delegate, to such gross in-
 14 come from royalties or such gross income from work-
 15 ing interests in oil or gas wells. The amount sub-
 16 tracted under this subparagraph with respect to
 17 royalties shall not exceed the gross income from such
 18 royalties, and the amount subtracted under this
 19 subparagraph with respect to working interests
 20 shall not exceed the gross income from such working
 21 interests.

22 “(C) INTEREST.—There shall be excluded—

23 “(i) interest received on a direct obliga-
 24 tion of the United States held for sale to
 25 customers in the ordinary course of trade or

1 business by a regular dealer who is making a
2 primary market in such obligations, and

3 “(ii) interest on a condemnation award, a
4 judgment, and a tax refund.

5 “(3) ADJUSTED INCOME FROM RENTS.—The term
6 ‘adjusted income from rents’ means the gross income
7 from rents, reduced by the amount subtracted under
8 paragraph (2) (A) of this subsection. For purposes
9 of the preceding sentence, the term ‘rents’ means com-
10 pensation, however designated, for the use of, or right
11 to use, property, and the interest on debts owed to the
12 corporation, to the extent such debts represent the
13 price for which real property held primarily for sale
14 to customers in the ordinary course of its trade or
15 business was sold or exchanged by the corporation;
16 but does not include amounts constituting personal hold-
17 ing company income under subsection (a) (6), nor
18 copyright royalties (as defined in subsection (a) (4)),
19 nor produced film rents (as defined in subsection
20 (a) (5) (B)).

21 “(4) ADJUSTED INCOME FROM MINERAL, OIL,
22 AND GAS ROYALTIES.—The term ‘adjusted income from
23 mineral, oil, and gas royalties’ means the gross income
24 from ~~such royalties~~ *mineral, oil, and gas royalties (in-*
25 *cluding production payments and overriding royalties),*

1 reduced by the amount subtracted under paragraph (2)

2 (B) of this subsection in respect of such royalties.”

3 (e) FOREIGN PERSONAL HOLDING COMPANY IN-
4 COME AND STOCK OWNERSHIP.—Section 553 (relating to
5 foreign personal holding company income) and section 554
6 (relating to stock ownership) are amended to read as
7 follows:

8 “SEC. 553. FOREIGN PERSONAL HOLDING COMPANY IN-
9 COME.

10 “(a) FOREIGN PERSONAL HOLDING COMPANY IN-
11 COME.—For purposes of this subtitle, the term ‘foreign per-
12 sonal holding company income’ means that portion of the
13 gross income, determined for purposes of section 552, which
14 consists of:

15 “(1) DIVIDENDS, ETC.—Dividends, interest, royal-
16 ties, and annuities. This paragraph shall not apply to
17 a dividend distribution of divested stock (as defined in
18 subsection (e) of section 1111) but only if the stock
19 with respect to which the distribution is made was
20 owned by the distributee on September 6, 1961, or was
21 owned by the distributee for at least 2 years before
22 the date on which the antitrust order (as defined in
23 subsection (d) of section 1111) was entered.

24 “(2) STOCK AND SECURITIES TRANSACTIONS.—

1 Except in the case of regular dealers in stock or secu-
2 rities, gains from the sale or exchange of stock or
3 securities.

4 “(3) COMMODITIES TRANSACTIONS.—Gains from
5 futures transactions in any commodity on or subject to
6 the rules of a board of trade or commodity exchange.
7 This paragraph shall not apply to gains by a producer,
8 processor, merchant, or handler of the commodity which
9 arise out of bona fide hedging transactions reasonably
10 necessary to the conduct of its business in the manner in
11 which such business is customarily and usually con-
12 ducted by others.

13 “(4) ESTATES AND TRUSTS.—Amounts includible
14 in computing the taxable income of the corporation
15 under part I of subchapter J (sec. 641 and following,
16 relating to estates, trusts, and beneficiaries) ; and gains
17 from the sale or other disposition of any interest in an
18 estate or trust.

19 “(5) PERSONAL SERVICE CONTRACTS.—

20 “(A) Amounts received under a contract
21 under which the corporation is to furnish personal
22 services; if some person other than the corporation
23 has the right to designate (by name or by descrip-
24 tion) the individual who is to perform the services,

1 or if the individual who is to perform the services
2 is designated (by name or by description) in the
3 contract; and

4 “(B) amounts received from the sale or other
5 disposition of such a contract.

6 This paragraph shall apply with respect to amounts
7 received for services under a particular contract only if
8 at some time during the taxable year 25 percent or more
9 in value of the outstanding stock of the corporation is
10 owned, directly or indirectly, by or for the individual
11 who has performed, is to perform, or may be designated
12 (by name or by description) as the one to perform, such
13 services.

14 “(6) USE OF CORPORATION PROPERTY BY SHARE-
15 HOLDER.—Amounts received as compensation (however
16 designated and from whomsoever received) for the use
17 of, or right to use, property of the corporation in any case
18 where, at any time during the taxable year, 25 percent
19 or more in value of the outstanding stock of the corpora-
20 tion is owned, directly or indirectly, by or for an indi-
21 vidual entitled to the use of the property; whether such
22 right is obtained directly from the corporation or by
23 means of a sublease or other arrangement. This para-
24 graph shall apply only to a corporation which has foreign

1 personal holding company income for the taxable year,
 2 computed without regard to this paragraph and para-
 3 graph (7), in excess of 10 percent of its gross income.

4 “(7) RENTS.—Rents, unless constituting 50 per-
 5 cent or more of the gross income. For purposes of this
 6 paragraph, the term ‘rents’ means compensation, how-
 7 ever designated, for the use of, or right to use, property;
 8 but does not include amounts constituting foreign per-
 9 sonal holding company income under paragraph (6).

10 “(b) LIMITATION ON GROSS INCOME IN CERTAIN
 11 TRANSACTIONS.—For purposes of this part—

12 “(1) gross income and foreign personal holding
 13 company income determined with respect to transactions
 14 described in subsection (a) (2) (relating to gains from
 15 stock and security transactions) shall include only the
 16 excess of gains over losses from such transactions, and

17 “(2) gross income and foreign personal holding
 18 company income determined with respect to transactions
 19 described in subsection (a) (3) (relating to gains from
 20 commodity transactions) shall include only the excess of
 21 gains over losses from such transactions.

22 “SEC. 554. STOCK OWNERSHIP.

23 “(a) CONSTRUCTIVE OWNERSHIP.—For purposes of de-
 24 termining whether a corporation is a foreign personal holding
 25 company, insofar as such determination is based on stock

1 ownership under section 552 (a) (2), section 553 (a) (5),
2 or section 553 (a) (6) —

3 “(1) STOCK NOT OWNED BY INDIVIDUAL.—Stock
4 owned, directly or indirectly, by or for a corporation,
5 partnership, estate, or trust shall be considered as being
6 owned proportionately by its shareholders, partners, or
7 beneficiaries.

8 “(2) FAMILY AND PARTNERSHIP OWNERSHIP.—
9 An individual shall be considered as owning the stock
10 owned, directly or indirectly, by or for his family or by
11 or for his partner. For purposes of this paragraph, the
12 family of an individual includes only his brothers and
13 sisters (whether by the whole or half blood), spouse,
14 ancestors, and lineal descendants.

15 “(3) OPTIONS.—If any person has an option to
16 acquire stock, such stock shall be considered as owned by
17 such person. For purposes of this paragraph, an option
18 to acquire such an option, and each one of a series of
19 such options, shall be considered as an option to acquire
20 such stock.

21 “(4) APPLICATION OF FAMILY-PARTNERSHIP AND
22 OPTION RULES.—Paragraphs (2) and (3) shall be
23 applied—

24 “(A) for purposes of the stock ownership
25 requirement provided in section 552 (a) (2), if, but

1 only if, the effect is to make the corporation a foreign
2 personal holding company;

3 “(B) for purposes of section 553 (a) (5)
4 (relating to personal service contracts) or of section
5 553 (a) (6) (relating to the use of property by
6 shareholders), if, but only if, the effect is to make
7 the amounts therein referred to includible under
8 such paragraph as foreign personal holding com-
9 pany income.

10 “(5) CONSTRUCTIVE OWNERSHIP AS ACTUAL
11 OWNERSHIP.—Stock constructively owned by a person
12 by reason of the application of paragraph (1) or (3)
13 shall, for purposes of applying paragraph (1) or (2),
14 be treated as actually owned by such person; but stock
15 constructively owned by an individual by reason of the
16 application of paragraph (2) shall not be treated as
17 owned by him for purposes of again applying such
18 paragraph in order to make another the constructive
19 owner of such stock.

20 “(6) OPTION RULE IN LIEU OF FAMILY AND
21 PARTNERSHIP RULE.—If stock may be considered as
22 owned by an individual under either paragraph (2)
23 or (3) it shall be considered as owned by him under
24 paragraph (3).

25 “(b) CONVERTIBLE SECURITIES.—Outstanding securi-

1 ties convertible into stock (whether or not convertible during
2 the taxable year) shall be considered as outstanding stock—

3 “(1) for purposes of the stock ownership require-
4 ment provided in section 552 (a) (2), but only if the
5 effect of the inclusion of all such securities is to make
6 the corporation a foreign personal holding company;

7 “(2) for purposes of section 553 (a) (5) (relating
8 to personal service contracts), but only if the effect of
9 the inclusion of all such securities is to make the amounts
10 therein referred to includible under such paragraph as
11 foreign personal holding company income; and

12 “(3) for purposes of section 553 (a) (6) (relating
13 to the use of property by shareholders), but only if the
14 effect of the inclusion of all such securities is to make the
15 amounts therein referred to includible under such para-
16 graph as foreign personal holding company income.

17 The requirement in paragraphs (1), (2), and (3) that all
18 convertible securities must be included if any are to be in-
19 cluded shall be subject to the exception that, where some of
20 the outstanding securities are convertible only after a later
21 date than in the case of others, the class having the earlier
22 conversion date may be included although the others are not
23 included, but no convertible securities shall be included unless
24 all outstanding securities having a prior conversion date are
25 also included.”

1 (f) DIVIDENDS-PAID DEDUCTION.—

2 (1) Paragraph (2) of section 316 (b) (relating to
3 special rules for dividend defined) is amended to read
4 as follows:

5 “(2) DISTRIBUTIONS BY PERSONAL HOLDING COM-
6 PANIES.—

7 ‘(A) In the case of a corporation which—

8 “(i) under the law applicable to the tax-
9 able year in which the distribution is made, is a
10 personal holding company (as defined in section
11 542), or

12 “(ii) for the taxable year in respect of
13 which the distribution is made under section 563

14 (b) (relating to dividends paid after the close
15 of the taxable year), or section 547 (relating
16 to deficiency dividends), or the corresponding
17 provisions of prior law, is a personal holding
18 company under the law applicable to such tax-
19 able year,

20 the term ‘dividend’ also means any distribution of
21 property (whether or not a dividend as defined in
22 subsection (a)) made by the corporation to its
23 shareholders, to the extent of its undistributed per-

1 sonal holding company income (determined under
2 section 545 without regard to distributions under
3 this paragraph) for such year.

4 “(B) For purposes of subparagraph (A), the
5 term ‘distribution of property’ includes a distribu-
6 tion in complete liquidation occurring within 24
7 months after the adoption of a plan of liquidation,
8 but—

9 “(i) only to the extent of the amounts dis-
10 tributed to distributees other than corporate
11 shareholders, and

12 “(ii) only to the extent that the corpora-
13 tion designates such amounts as a dividend dis-
14 tribution and duly notifies such distributees of
15 such designation, under regulations prescribed
16 by the Secretary or his delegate, but

17 “(iii) not in excess of the sum of such
18 distributees’ allocable share of the undistributed
19 personal holding company income for such
20 year, computed without regard to this subpara-
21 graph or section 562 (b).”

22 (2) Section 331 (b) (relating to nonapplication
23 of section 301) is amended by inserting after “any

1 distribution of property" the phrase "(other than a
2 distribution referred to in paragraph (2) (B) of section
3 316 (b))".

4 (3) Section 562 (b) (relating to distributions in
5 liquidation) is amended to read as follows:

6 "(b) DISTRIBUTIONS IN LIQUIDATION.—

7 "(1) Except in the case of a personal holding com-
8 pany described in section 542 or a foreign personal
9 holding company described in section ~~552~~, 552—

10 "(A) in the case of amounts distributed in
11 liquidation, the part of such distribution which is
12 properly chargeable to earnings and profits ac-
13 cumulated after February 28, 1913, shall be treated
14 as a dividend for purposes of computing the divi-
15 dends paid deduction, and

16 "(B) in the case of a complete liquidation
17 occurring within 24 months after the adoption of
18 a plan of liquidation, any distribution within such
19 period pursuant to such plan shall, to the extent of
20 the earnings and profits (computed without regard
21 to capital losses) of the corporation for the taxable
22 year in which such distribution is made, be treated

1 as a dividend for purposes of computing the divi-
2 dends paid deduction.

3 “(2) In the case of a complete liquidation of a per-
4 sonal holding company, occurring within 24 months
5 after the adoption of a plan of liquidation, the amount
6 of any distribution within such period pursuant to such
7 plan shall be treated as a dividend for purposes of com-
8 puting the dividends paid deduction, to the extent that
9 such amount is distributed to corporate distributees and
10 represents such corporate distributees’ allocable share of
11 the undistributed personal holding company income for
12 the taxable year of such distribution computed without
13 regard to this paragraph and without regard to sub-
14 paragraph (B) of section 316(b)(2).”

15 (4) Section 551(b) (relating to amount included
16 in gross income) is amended by striking out “received
17 as a dividend” and inserting in lieu thereof “received as
18 a dividend (determined as if any distribution in liquida-
19 tion actually made in such taxable year had not been
20 made)”.

21 (g) ONE-MONTH LIQUIDATIONS.—Section 333 (relat-
22 ing to election as to recognition of gain in certain liquida-

1 tions) is amended by adding at the end thereof the following
2 new subsection:

3 “(g) SPECIAL RULE.—

4 “(1) LIQUIDATIONS BEFORE JANUARY 1, ~~1966~~
5 1967.—In the case of a liquidation occurring before Janu-
6 ary 1, ~~1966~~ 1967, of a corporation referred to in para-
7 graph (3) —

8 “(A) the date ‘December 31, 1953’ referred to
9 in subsections (e) (2) and (f) (1) shall be treated
10 as if such date were ‘December 31, 1962’, and

11 “(B) in the case of stock in such corporation
12 held for more than 6 months, the term ‘a dividend’
13 as used in subsection (e) (1) shall be treated as
14 if such term were ‘~~class B~~ *long-term* capital gain’.

15 Subparagraph (B) shall not apply to any earnings and
16 profits to which the corporation succeeds after ~~August 1,~~
17 *December 31, 1963*, pursuant to any corporate reorgani-
18 zation or pursuant to any liquidation to which section
19 332 applies, except earnings and profits which on
20 ~~August 1,~~ *December 31, 1963*, constituted earnings and
21 profits of a corporation referred to in paragraph (3),
22 and except earnings and profits which were earned
23 after such date by a corporation referred to in para-
24 graph (3).

1 “(2) LIQUIDATIONS AFTER DECEMBER 31,

2 ~~1965~~ 1966.—

3 “(A) IN GENERAL.—In the case of a liquida-
4 tion occurring after December 31, ~~1965~~ 1966, of a
5 corporation to which this subparagraph applies—

6 “(i) the date ‘December 31, 1953’ re-
7 ferred to in subsections (e) (2) and (f) (1)
8 shall be treated as if such date were ‘December
9 31, 1962’, and

10 “(ii) so much of the gain recognized under
11 subsection (e) (1) as is attributable to the
12 earnings and profits accumulated after Febru-
13 ary 28, 1913, and before January 1, ~~1966~~
14 1967, shall, in the case of stock in such corpora-
15 tion held for more than 6 months, be treated as
16 ~~class B~~ *long-term* capital gain, and only the re-
17 mainder of such gain shall be treated as a
18 dividend.

19 Clause (ii) shall not apply to any earnings and
20 profits to which the corporation succeeds after
21 ~~August 1~~ December 31, 1963, pursuant to any cor-
22 porate reorganization or pursuant to any liquidation
23 to which section 332 applies, except earnings and
24 profits which on ~~August 1~~ December 31, 1963,

1 constituted earnings and profits of a corporation
 2 referred to in paragraph (3), and except earnings
 3 and profits which were earned after such date by a
 4 corporation referred to in paragraph (3).

5 “(B) CORPORATIONS TO WHICH APPLI-
 6 CABLE.—Subparagraph (A) shall apply only with
 7 respect to a corporation which is referred to in para-
 8 graph (3) and which—

9 “(i) on ~~August 1, 1963~~ *January 1, 1964*,
 10 owes qualified indebtedness (as defined in sec-
 11 tion 545 (c)),

12 “(ii) before January 1, ~~1967~~ *1968*, noti-
 13 fies the Secretary or his delegate that it may
 14 wish to have subparagraph (A) apply to it
 15 and submits such information as may be re-
 16 quired by regulations prescribed by the Secre-
 17 tary or his delegate, and

18 “(iii) liquidates before the close of the tax-
 19 able year in which such corporation ceases to
 20 owe such qualified indebtedness or (if earlier)
 21 the taxable year referred to in subparagraph
 22 (C).

23 “(C) ADJUSTED POST-1963 EARNINGS AND
 24 PROFITS EXCEED QUALIFIED INDEBTEDNESS.—In

1 the case of any corporation, the taxable year re-
 2 ferred to in this subparagraph is the first taxable
 3 year at the close of which its adjusted post-1963
 4 earnings and profits equal or exceed the amount of
 5 such corporation's qualified indebtedness on ~~August~~
 6 ~~1, 1963~~ *January 1, 1964*. For purposes of the
 7 preceding sentence, the term 'adjusted post-1963
 8 earnings and profits' means the sum of—

9 “(i) the earnings and profits of such cor-
 10 poration for taxable years beginning after De-
 11 cember 31, 1963, without diminution by reason
 12 of any distributions made out of such earnings
 13 and profits, and

14 “(ii) the deductions allowed for taxable
 15 years beginning after December 31, 1963, for
 16 exhaustion, wear and tear, obsolescence, ~~or~~
 17 amortization, *or depletion*.

18 “(3) CORPORATIONS REFERRED TO.—For purposes
 19 of paragraphs (1) and (2), a corporation referred to in
 20 this paragraph is a corporation which for at least one of
 21 the two most recent taxable years ending before the date
 22 ~~of the enactment of this subsection~~ *December 31, 1963*,
 23 was not a personal holding company under section 542,
 24 but would have been a personal holding company under

1 section 542 for such taxable year if the law applicable
 2 for the first taxable year beginning after December 31,
 3 1963, had been applicable to such taxable ~~year.~~” year.

4 “(4) *MISTAKE AS TO APPLICABILITY OF SUBSEC-*
 5 *TION.—An election made under this section by a quali-*
 6 *fied electing shareholder of a corporation in which such*
 7 *shareholder states that such election is made on the as-*
 8 *sumption that such corporation is a corporation referred*
 9 *to in paragraph (3) shall have no force or effect if it*
 10 *is determined that the corporation is not a corporation*
 11 *referred to in paragraph (3).”*

12 (h) **EXCEPTION FOR CERTAIN CORPORATIONS.—**

13 (1) **GENERAL RULE.—**Except as provided in para-
 14 graph (2), in the case of a corporation referred to in
 15 section 333 (g) (3) of the Internal Revenue Code of
 16 1954 (as added by subsection (g) of this section), the
 17 amendments made by this section (other than subsec-
 18 tions (f) and (g)) shall not apply if there is a com-
 19 plete liquidation of such corporation and if the distri-
 20 bution of all the property under such liquidation occurs
 21 before January 1, 1966.

22 (2) **EXCEPTION.—**Paragraph (1) shall not apply
 23 to any liquidation to which section 332 of the Internal
 24 Revenue Code of 1954 applies unless—

25 (A) the corporate distributee (referred to in

1 subsection (b) (1) of such section 332) in such
 2 liquidation is liquidated in a complete liquidation to
 3 which such section 332 does not apply, and

4 (B) the distribution of all the property under
 5 such liquidation occurs before the 91st day after the
 6 last distribution referred to in paragraph (1) and
 7 before January 1, 1966.

8 (i) DEDUCTION FOR AMORTIZATION OF INDEBTED-
 9 NESS.—

10 (1) Section 545 (a) (relating to definition of un-
 11 distributed personal holding company income) is
 12 amended by striking out “subsection (b)” and inserting
 13 in lieu thereof “subsections (b) and (c)”.

14 (2) Section 545 is amended by adding at the end
 15 thereof the following new subsection:

16 “(c) SPECIAL ADJUSTMENT TO TAXABLE INCOME.—

17 “(1) IN GENERAL.—Except as otherwise provided
 18 in this subsection, for purposes of subsection (a) there
 19 shall be allowed as a deduction amounts used, or amounts
 20 irrevocably set aside (to the extent reasonable with
 21 reference to the size and terms of the indebtedness), to
 22 pay or retire qualified indebtedness.

23 “(2) CORPORATIONS TO WHICH APPLICABLE.—

24 This subsection shall apply only with respect to a corpo-
 25 ration—

1 “(A) which for at least one of the two most
 2 recent taxable years ending before ~~the date of the~~
 3 ~~enactment of this subsection~~ *December 31, 1963*,
 4 was not a personal holding company under section
 5 542, but would have been a personal holding com-
 6 pany under section 542 for such taxable year if the
 7 law applicable for the first taxable year beginning
 8 after December 31, 1963, had been applicable to
 9 such taxable year, or

10 “(B) to the extent that it succeeds to the de-
 11 duction referred to in paragraph (1) by reason of
 12 section 381 (c) (15).

13 “(3) QUALIFIED INDEBTEDNESS.—

14 “(A) IN GENERAL.—Except as otherwise pro-
 15 vided in this paragraph, for purposes of this sub-
 16 section the term ‘qualified indebtedness’ means—

17 “(i) the outstanding indebtedness incurred
 18 by the taxpayer after December 31, 1933, and
 19 before ~~August 1, 1963~~, *January 1, 1964*, and

20 “(ii) the outstanding indebtedness incurred
 21 after ~~July 31, 1963~~, *December 31, 1963*, for
 22 the purpose of making a payment or set-aside
 23 referred to in paragraph (1) in the same tax-
 24 able year, but, ~~in the case of such a payment~~
 25 ~~or set-aside which is made on or after the first~~

1 day of the first taxable year beginning after
2 ~~December 31, 1963,~~ only to the extent the
3 deduction otherwise allowed in paragraph (1)
4 with respect to such payment or set-aside is
5 treated as nondeductible by reason of the elec-
6 tion provided in paragraph (4).

7 “(B) EXCEPTION.—For purposes of subpara-
8 graph (A), qualified indebtedness does not include
9 any amounts which were, at any time after ~~July 31,~~
10 *December 31, 1963,* and before the payment or
11 set-aside, owed to a person who at such time owned
12 (or was considered as owning within the meaning
13 of section 318 (a)) more than 10 percent in value
14 of the taxpayer’s outstanding stock.

15 “(C) REDUCTION FOR AMOUNTS IRREVO-
16 CABLY SET ASIDE.—For purposes of subparagraph
17 (A), the qualified indebtedness with respect to a
18 contract shall be reduced by amounts irrevocably
19 set aside before the taxable year to pay or retire
20 such indebtedness; and no deduction shall be al-
21 lowed under paragraph (1) for payments out of
22 amounts so set aside.

23 “(4) ELECTION NOT TO DEDUCT.—A taxpayer
24 may elect, under regulations prescribed by the Secre-
25 tary or his delegate, to treat as nondeductible an amount

1 otherwise deductible under paragraph (1) ; but only
 2 if the taxpayer files such election on or before the 15th
 3 day of the third month following the close of the taxable
 4 year with respect to which such election applies, designating therein the amounts which are to be treated as
 5 nondeductible and specifying the indebtedness (referred
 6 to in paragraph (3) (A) (ii)) incurred for the purpose
 7 of making the payment or set-aside.
 8

9 “(5) LIMITATIONS.—The deduction otherwise al-
 10 lowed by this subsection for the taxable year shall be
 11 reduced by the sum of—

12 “(A) the amount, if any, by which—

13 “(i) the deductions allowed for the taxable
 14 year and all preceding taxable years beginning
 15 after December 31, 1963, for exhaustion, wear
 16 and tear, obsolescence, ~~or amortization~~ *amor-*
 17 *tization, or depletion* (other than such deduc-
 18 tions which are disallowed in computing
 19 undistributed personal holding company income
 20 under subsection (b) (8)), exceed

21 “(ii) any reduction, by reason of this
 22 subparagraph, of the deductions otherwise al-
 23 lowed by this subsection for such preceding
 24 taxable years, and

25 “(B) the amount, if any, by which—

1 “(i) the deductions allowed under sub-
 2 section (b) (5) in computing undistributed per-
 3 sonal holding company income for the taxable
 4 year and all preceding taxable years beginning
 5 after December 31, 1963, exceed

6 “(ii) any reduction, by reason of this sub-
 7 paragraph, of the deductions otherwise allowed
 8 by this subsection for such preceding taxable
 9 years.

10 “(6) PRO-RATA REDUCTION IN CERTAIN CASES.—
 11 For purposes of paragraph (3) (A), if property (of a
 12 character which is subject to ~~the~~ *an* allowance for ex-
 13 haustion, wear and tear, obsolescence, ~~or amortization~~
 14 *amortization, or depletion*) is disposed of after ~~July 31~~
 15 *December 31*, 1963, the total amounts of qualified
 16 indebtedness of the taxpayer shall be reduced pro-rata
 17 in the taxable year of such disposition by the amount,
 18 if any, by which—

19 “(A) the adjusted basis of such property at the
 20 time of such disposition, exceeds

21 “(B) the amount of qualified indebtedness
 22 which ceased to be qualified indebtedness with
 23 respect to the taxpayer by reason of the assump-
 24 tion of the indebtedness by the transferee.”

25 (3) Paragraph (15) of section 381 (c) (relating

1 to carryovers in certain corporate acquisitions) is
 2 amended to read as follows:

3 “(15) INDEBTEDNESS OF CERTAIN PERSONAL
 4 HOLDING COMPANIES.—The acquiring corporation shall
 5 be considered to be the distributor or transferor corpora-
 6 tion for the purpose of determining the applicability of
 7 subsections (b) (7) and (c) of section 545, relating to
 8 deduction with respect to payment of certain indebted-
 9 ness.”

10 ~~(j)~~ INCREASE IN BASIS WITH RESPECT TO CERTAIN
 11 FOREIGN PERSONAL HOLDING COMPANY HOLDINGS.—

12 ~~(1)~~ IN GENERAL.—Part II of subchapter O of
 13 chapter 1 (relating to basis rules of general application)
 14 is amended by redesignating section 1022 as section
 15 1023 and by inserting after section 1021 the following
 16 new section:

17 “SEC. 1022. INCREASE IN BASIS WITH RESPECT TO CER-
 18 TAIN FOREIGN PERSONAL HOLDING COME-
 19 PANY HOLDINGS.

20 “(a) GENERAL RULE.—The basis (determined under
 21 section 1014(b)(5), relating to basis of stock or securities
 22 in a foreign personal holding company) of a share of stock
 23 or a security, acquired from a decedent dying after August
 24 15, 1963, of a corporation which was a foreign personal

1 holding company for its most recent taxable year ending
 2 before the date of the enactment of this section shall be in-
 3 creased by its proportionate share of any Federal estate tax
 4 attributable to the net appreciation in value of all of such
 5 shares and securities determined as provided in this section:

6 “(b) PROPORTIONATE SHARE.—For purposes of sub-
 7 section (a), the proportionate share of a share of stock or of
 8 a security is that amount which bears the same ratio to the
 9 aggregate increase determined under subsection (c)(2) as
 10 the appreciation in value of such share or security bears to
 11 the aggregate appreciation in value of all such shares and
 12 securities having appreciation in value.

13 “(c) SPECIAL RULES AND DEFINITIONS.—For pur-
 14 poses of this section—

15 “(1) FEDERAL ESTATE TAX.—The term ‘Federal
 16 estate tax’ means only the tax imposed by section 2001
 17 or 2101, reduced by any credit allowable with respect
 18 to a tax on prior transfers by section 2013 or 2102.

19 “(2) FEDERAL ESTATE TAX ATTRIBUTABLE TO
 20 NET APPRECIATION IN VALUE.—The Federal estate tax
 21 attributable to the net appreciation in value of all shares
 22 of stock and securities to which subsection (a) applies
 23 is that amount which bears the same ratio to the Federal
 24 estate tax as the net appreciation in value of all of such

1 shares and securities bears to the value of the gross estate
 2 as determined under chapter 11 (including section 2032,
 3 relating to alternative valuation).

4 “(3) NET APPRECIATION.—The net appreciation in
 5 value of all shares and securities to which subsection (a)
 6 applies is the amount by which the fair market value of
 7 all such shares and securities exceeds the basis of such
 8 property in the hands of the decedent.

9 “(4) FAIR MARKET VALUE.—For purposes of this
 10 section, the term ‘fair market value’ means fair market
 11 value determined under chapter 11 (including section
 12 2032, relating to alternate valuation).

13 “(d) LIMITATIONS.—This section shall not apply to
 14 any foreign personal holding company referred to in section
 15 342(a)(2).”

16 (2) AMENDMENT OF SECTION 1016(a).—Section
 17 1016(a) (relating to adjustments to basis) is amended
 18 by striking out the period at the end thereof and by
 19 inserting in lieu thereof a semicolon and by adding at
 20 the end thereof the following new paragraph:

21 “(21) to the extent provided in section 1022, re-
 22 lating to increase in basis for certain foreign personal
 23 holding company holdings, or in section 216(j)(4) of
 24 the Revenue Act of 1963.”

1 ~~(3)~~ CLERICAL AMENDMENTS.—

2 (A) The table of sections for part II of sub-
3 chapter 0 of chapter 1 is amended by striking
4 out

“Sec. 1022. Cross references.”

5 and inserting in lieu thereof the following:

“Sec. 1022. Increase in basis with respect to certain foreign
personal holding company holdings.

“Sec. 1023. Cross references.”

6 ~~(4)~~ ONE-MONTH LIQUIDATIONS.—If—

7 (A) a corporation was a foreign personal
8 holding company for its most recent taxable year
9 ending before the date of the enactment of this
10 Act;

11 (B) all of the stock of such corporation is
12 owned on August 15, 1963, and at the time of
13 liquidation, by individuals and estates, and

14 (C) the transfer of all the property under the
15 liquidation occurs within one of the first 4 calendar
16 months ending after such date of enactment,

17 then such corporation shall be treated as a domestic
18 corporation for purposes of section 333 of the Internal
19 Revenue Code of 1954 (relating to 1-month liquida-
20 tions); and shall be treated as a foreign corporation for
21 purposes of section 367 of such Code (relating to foreign

1 corporations). In applying such section 367 for pur-
 2 poses of this paragraph, references in the first sentence of
 3 such section 367 to other sections of such Code shall be
 4 treated as including a reference to such section 333.

5 ~~(5)~~ BASIS OF CERTAIN PROPERTY ACQUIRED
 6 FROM A DECEDENT.—

7 ~~(A)~~ In the case of property described in sub-
 8 paragraph ~~(B)~~ acquired from a decedent or passing
 9 from a decedent ~~(within the meaning of section~~
 10 1014(b) of the Internal Revenue Code of 1954);
 11 the basis shall ~~(in lieu of being the basis provided~~
 12 by section 1014 of such Code) be the basis immedi-
 13 ately before the death of the decedent, increased
 14 by the amount of any Federal estate tax attributable
 15 to the net appreciation in value of such property
 16 ~~(determined in accordance with section 1022 of such~~
 17 Code as if such property were stock and securities
 18 referred to in such section).

19 ~~(B)~~ Subparagraph ~~(A)~~ shall apply to—

20 ~~(i)~~ property which the decedent received
 21 as a qualified electing shareholder, and

22 ~~(ii)~~ property the basis of which ~~(without~~
 23 the application of this paragraph) is a sub-
 24 stituted basis ~~(as defined in section 1016(b)~~
 25 of the Internal Revenue Code of 1954) deter-

1 mined by reference to the basis of such property
2 or other property received by any individual or
3 estate as a qualified electing shareholder.

4 For purposes of this subparagraph, property shall
5 be treated as property received as a qualified elect-
6 ing shareholder if, with respect to such property, the
7 recipient was a qualified electing shareholder (within
8 the meaning of section 333(c) of such Code) in
9 a corporate liquidation to which section 333 of
10 such Code applied by reason of paragraph (4) of
11 this subsection.

12 (C) In the case of property acquired from the
13 decedent by gift, the increase in basis under this
14 paragraph shall not exceed the amount by which
15 the increase under this paragraph is greater than
16 the increase allowable under section 1015(d) of the
17 Internal Revenue Code of 1954.

18 (6) LIMITATIONS.—The provisions of paragraphs
19 (4) and (5) of this subsection shall not apply to any
20 foreign corporation referred to in section 342(a)(2)
21 of the Internal Revenue Code of 1954.

22 (7) MEANING OF TERMS.—Terms used in para-
23 graphs (4) through (6) of this subsection shall have
24 the same meaning as when used in chapter 1 of the
25 Internal Revenue Code of 1954.

1 ~~(k)~~ (j) TECHNICAL AMENDMENTS.—

2 (1) Section 542 (b) (relating to corporations filing
3 consolidated returns) is amended by striking out “gross
4 income” each place it appears and inserting in lieu
5 thereof “adjusted ordinary gross income”.

6 (2) Section 543 (relating to personal holding com-
7 pany income) is amended by striking out subsection
8 (d) (relating to special adjustment on disposition of
9 antitrust stock received as a dividend).

10 (3) Section 544 (relating to rules for determining
11 stock ownership) is amended—

12 (A) by striking out “section 543 (a) (5)” each
13 place it appears and inserting in lieu thereof “section
14 543 (a) (7)”, and

15 (B) by striking out “section 543 (a) (9)” each
16 place it appears and inserting in lieu thereof “section
17 543 (a) (4)”.

18 (4) REAL ESTATE INVESTMENT TRUSTS.—Para-
19 graph (6) of section 856 (a) (relating to definition of
20 real estate investment trust) is amended by striking out
21 “gross income” and inserting in lieu thereof “adjusted
22 ordinary gross income (as defined in section 543
23 (b) (2))”.

24 (5) UNINCORPORATED BUSINESS ENTERPRISES
25 ELECTING TO BE TAXED AS DOMESTIC CORPORATIONS.—

1 Section 1361 (i) (relating to personal holding company
2 income) is amended to read as follows:

3 “(i) PERSONAL HOLDING COMPANY INCOME.—

4 “(1) EXCLUDED FROM INCOME OF ENTERPRISE.—

5 There shall be excluded from the gross income of the
6 enterprise as to which an election has been made under
7 subsection (a) any item of gross income (computed
8 without regard to the adjustments provided in section
9 543 (b) (3) or (4)) if, but for this paragraph, such
10 item (adjusted, where applicable, as provided in section
11 543 (b) (3) or (4)) would constitute personal holding
12 company income (as defined in section 543 (a)) of such
13 enterprise.

14 “(2) INCOME AND DEDUCTIONS OF OWNERS.—

15 Items excluded from the gross income of the enter-
16 prise under paragraph (1), and the expenses attribut-
17 able thereto, shall be treated as the income and deduc-
18 tions of the proprietor or partners (in accordance with
19 their distributive shares of partnership income) of such
20 enterprise.

21 “(3) DISTRIBUTIONS.—If—

22 “(A) the amount excluded from gross income
23 under paragraph (2) exceeds the expenses at-
24 tributable thereto, and

1 “(B) any portion of such excess is distributed
 2 to the proprietor or partner during the year earned,
 3 such portion shall not be taxed as a corporate distribu-
 4 tion. The portion of such excess not distributed during
 5 such year shall be considered as paid-in surplus or as
 6 a contribution to capital as of the close of such year.”

7 (6) ASSESSMENT AND COLLECTION OF PERSONAL
 8 HOLDING COMPANY TAX.—Section 6501 (f) (relating
 9 to personal holding company tax) is amended by
 10 striking out “gross income, described in section
 11 543 (a),” and inserting in lieu thereof “gross income
 12 and adjusted ordinary gross income, described in section
 13 543,”.

14 ~~(h)~~ (k) EFFECTIVE DATES.—

15 (1) The amendments made by this section (other
 16 than by subsections (c) (1), (f), ~~(g)~~, and ~~(j)~~ and
 17 (g)) shall apply to taxable years beginning after Decem-
 18 ber 31, 1963.

19 (2) The amendment made by subsection (c) (1)
 20 shall apply to taxable years beginning after October 16,
 21 1962.

22 (3) The amendments made by subsections (f) and
 23 (g) shall apply to distributions made in any taxable
 24 year of the distributing corporation beginning after De-
 25 cember 31, 1963.

1 ~~(4)~~ The amendments made by paragraphs ~~(1)~~,
 2 ~~(2)~~, and ~~(3)~~ of subsection ~~(j)~~ shall apply in respect
 3 of decedents dying after August 15, 1963.

4 ~~(5)~~ (4) Subsection (h) shall apply to taxable
 5 years beginning after December 31, 1963.

6 SEC. ~~247~~ 227. TREATMENT OF PROPERTY IN CASE OF OIL
 7 AND GAS WELLS.

8 (a) IN GENERAL.—Section 614 (b) (relating to special
 9 rule as to operating mineral interests) is amended to read as
 10 follows:

11 “(b) SPECIAL RULES AS TO OPERATING MINERAL
 12 INTERESTS IN OIL AND GAS WELLS.—In the case of oil
 13 and gas wells—

14 “(1) IN GENERAL.—Except as otherwise provided
 15 in this subsection—

16 “(A) all of the taxpayer’s operating mineral
 17 interests in a separate tract or parcel of land shall
 18 be combined and treated as one property, and

19 “(B) the taxpayer may not combine an operat-
 20 ing mineral interest in one tract or parcel of land
 21 with an operating mineral interest in another tract
 22 or parcel of land.

23 “(2) ELECTION TO TREAT OPERATING MINERAL
 24 INTERESTS AS SEPARATE PROPERTIES.—If the tax-
 25 payer has more than one operating mineral interest in

1 a single tract or parcel of land, he may elect to treat
 2 one or more of such operating mineral interests as
 3 separate properties. The taxpayer may not have more
 4 than one combination of operating mineral interests in
 5 a single tract or parcel of land. If the taxpayer makes
 6 the election provided in this paragraph with respect to
 7 any interest in a tract or parcel of land, each operating
 8 mineral interest which is discovered or acquired by the
 9 taxpayer in such tract or parcel of land after the taxable
 10 year for which the election is made shall be treated—

11 “(A) if there is no combination of interests in
 12 such tract or parcel, as a separate property unless
 13 the taxpayer elects to combine it with another in-
 14 terest, or

15 “(B) if there is a combination of interests in
 16 such tract or parcel, as part of such combination
 17 unless the taxpayer elects to treat it as a separate
 18 property.

19 “(3) CERTAIN UNITIZATION OR POOLING AR-
 20 RANGEMENTS.—

21 “(A) IN GENERAL.—Under regulations pre-
 22 scribed by the Secretary or his delegate, if one or
 23 more of the taxpayer’s operating mineral interests
 24 participate, under a voluntary or compulsory
 25 unitization or pooling agreement, in a single co-

operative or unit plan of operation, then for the period of such participation—

“(i) they shall be treated for all purposes of this subtitle as one property, and

“(ii) the application of paragraphs (1), (2), and (4) in respect of such interests shall be suspended.

“(B) LIMITATION.—Subparagraph (A) shall apply to a voluntary agreement only if all the operating mineral interests covered by such agreement—

“(i) are in the same deposit, or are in 2 or more deposits the joint development or production of which is logical from the standpoint of geology, convenience, economy, or conservation, and

“(ii) are in tracts or parcels of land which are contiguous or in close proximity.

“(C) SPECIAL RULE IN THE CASE OF ARRANGEMENTS ENTERED INTO IN TAXABLE YEARS BEGINNING BEFORE JANUARY 1, 1964.—If—

“(i) two or more of the taxpayer's operating mineral interests participate under a voluntary or compulsory unitization or pooling agreement entered into in any taxable year

1 beginning before January 1, 1964, in a single
2 cooperative or unit plan of operation,

3 “(ii) the taxpayer, for the last taxable
4 year beginning before January 1, 1964, treated
5 such interests as two or more separate prop-
6 erties, and

7 “(iii) it is determined that such treatment
8 was proper under the law applicable to such
9 taxable year,

10 such taxpayer may continue to treat such interests
11 in a consistent manner for the period of such par-
12 ticipation.

13 “(4) MANNER, TIME, AND SCOPE OF ELECTION.—

14 “(A) MANNER AND TIME.—Any election pro-
15 vided in paragraph (2) shall be made for each
16 operating mineral interest, in the manner prescribed
17 by the Secretary or his delegate by regulations, not
18 later than the time prescribed by law for filing the
19 return (including extensions thereof) for whichever
20 of the following taxable years is the later: The first
21 taxable year beginning after December 31, 1963,
22 or the first taxable year in which any expenditure
23 for development or operation in respect of such oper-
24 ating mineral interest is made by the taxpayer after
25 the acquisition of such interest.

“(B) SCOPE.—Any election under paragraph (2) shall be for all purposes of this subtitle and shall be binding on the taxpayer for all subsequent taxable years.

“(5) TREATMENT OF CERTAIN PROPERTIES.—If, on the day preceding the first day of the first taxable year beginning after December 31, 1963, the taxpayer has any operating mineral interests which he treats under subsection (d) of this section (as in effect before the amendments made by the Revenue Act of ~~1963~~ 1964), such treatment shall be continued and shall be deemed to have been adopted pursuant to paragraphs (1) and (2) of this subsection (as amended by such Act).”

(b) TECHNICAL AMENDMENTS.—

(1) The heading of section 614 (c) is amended to read as follows:

“(c) SPECIAL RULES AS TO OPERATING MINERAL INTERESTS IN MINES.—”

(2) Paragraph (5) of section 614 (c) is hereby repealed.

(3) Section 614 (d) is amended to read as follows:

“(d) OPERATING MINERAL INTERESTS DEFINED.—

For purposes of this section, the term ‘operating mineral interest’ includes only an interest in respect of which the costs

1 of production of the mineral are required to be taken into
 2 account by the taxpayer for purposes of computing the 50
 3 percent limitation provided for in section 613, or would be
 4 so required if the mine, well, or other natural deposit were in
 5 the production stage.”

6 (4) Section 614(e) (2) is amended by striking
 7 out “within the meaning of subsection (b) (3)”.

8 (c) ALLOCATION OF BASIS IN CERTAIN CASES.—For
 9 purposes of the Internal Revenue Code of 1954—

10 (1) FAIR MARKET VALUE RULE.—Except as pro-
 11 vided in paragraph (2), if a taxpayer has a section
 12 614(b) aggregation, then the adjusted basis (as of the
 13 first day of the first taxable year beginning after Decem-
 14 ber 31, 1963) of each property included in such aggre-
 15 gation shall be determined by multiplying the adjusted
 16 basis of the aggregation by a fraction—

17 (A) the numerator of which is the fair market
 18 value of such property, and

19 (B) the denominator of which is the fair mar-
 20 ket value of such aggregation.

21 For purposes of this paragraph, the adjusted basis and
 22 the fair market value of the aggregation, and the fair
 23 market value of each property included therein, shall

1 be determined as of the day preceding the first day of
2 the first taxable year which begins after December
3 31, 1963.

4 (2) ALLOCATION OF ADJUSTMENTS, ETC.—If the
5 taxpayer makes an election under this paragraph with
6 respect to any section 614(b) aggregation, then the
7 adjusted basis (as of the first day of the first taxable year
8 beginning after December 31, 1963) of each property
9 included in such aggregation shall be the adjusted basis
10 of such property at the time it was first included in the
11 aggregation by the taxpayer, adjusted for that portion of
12 those adjustments to the basis of the aggregation which
13 are reasonably attributable to such property. If, under
14 the preceding sentence, the total of the adjusted bases of
15 the interests included in the aggregation exceeds the
16 adjusted basis of the aggregation (as of the day preced-
17 ing the first day of the first taxable year which begins
18 after December 31, 1963), the adjusted bases of the
19 properties which include such interests shall be adjusted,
20 under regulations prescribed by the Secretary of the
21 Treasury or his delegate, so that the total of the ad-
22 justed bases of such interests equals the adjusted basis
23 of the aggregation. An election under this paragraph

1 shall be made at such time and in such manner as the
2 Secretary of the Treasury or his delegate shall by regu-
3 lations prescribe.

4 (3) DEFINITIONS.—For purposes of this subsec-
5 tion—

6 (A) SECTION 614(b) AGGREGATION.—The
7 term “section 614 (b) aggregation” means any ag-
8 gregation to which section 614 (b) (1) (A) of the
9 Internal Revenue Code of 1954 (as in effect before
10 the amendments made by subsection (a) of this
11 section) applied for the day preceding the first day
12 of the first taxable year beginning after December
13 31, 1963.

14 (B) PROPERTY.—The term “property” has the
15 same meaning as is applicable, under section 614
16 of the Internal Revenue Code of 1954, to the tax-
17 payer for the first taxable year beginning after
18 December 31, 1963.

19 (d) EFFECTIVE DATE.—The amendments made by sub-
20 sections (a) and (b) shall apply to taxable years beginning
21 after December 31, 1963.

1 SEC. 218 228. TREATMENT OF CERTAIN IRON ORE ROYAL-
 2 TIES.

3 (a) IN GENERAL.—

4 (1) AMENDMENT OF SECTION 631(c).—Section
 5 631 (c) (relating to disposal of coal with a retained eco-
 6 nomic interest) is amended—

7 (A) by striking out the heading and inserting
 8 in lieu thereof the following:

9 “(c) DISPOSAL OF COAL OR *DOMESTIC* IRON ORE
 10 WITH A RETAINED ECONOMIC INTEREST.—”;

11 ~~(B)~~ by inserting “or iron ore” after “coal (in-
 12 cluding lignite)”; and

13 (B) by inserting “or iron ore mined in the
 14 United States,” after “coal (including lignite),”;

15 (C) by inserting “or iron ore” after “coal”
 16 each other place it appears in section 631~~(e)~~. (c);
 17 and

1 (D) by adding at the end thereof the following
2 new sentence:

3 *“This subsection shall not apply to any disposal of iron ore—*

4 *“(1) to a person whose relationship to the person*
5 *disposing of such iron ore would result in the disallow-*
6 *ance of losses under section 267 or 707(b), or*

7 *“(2) to a person owned or controlled directly or*
8 *indirectly by the same interests which own or control the*
9 *person disposing of such iron ore.”*

10 (2) AMENDMENT OF SECTION 1231(b).—Section
11 1231 (b) (2) (defining property used in the trade or
12 business) is amended to read as follows:

13 “(2) TIMBER, COAL, OR DOMESTIC IRON ORE.—
14 Such term includes timber, coal, and iron ore with re-
15 spect to which section 631 applies.”

16 (3) AMENDMENT OF SECTION 272.—The text of
17 section 272 (relating to disposal of coal) is amended by
18 inserting “or iron ore” after “coal” each place it appears.

19 (b) CLERICAL AMENDMENTS.—

20 (1) the heading of section 631 is amended to read
21 as follows:

1 **“SEC. 631. GAIN OR LOSS IN THE CASE OF TIMBER, COAL,**
 2 **OR DOMESTIC IRON ORE.”**

3 (2) The table of sections for part III of subchapter
 4 I of chapter 1 is amended by striking out

 “Sec. 631. Gain or loss in the case of timber or coal.”

5 and inserting in lieu thereof the following:

 “Sec. 631. Gain or loss in the case of timber, coal, or *domestic*
 iron ore.”

6 (3) The heading of section 272 is amended to read
 7 as follows:

8 **“SEC. 272. DISPOSAL OF COAL OR DOMESTIC IRON ORE.”**

9 (4) The table of sections for part IX of subchapter
 10 B of chapter 1 is amended by striking out

 “Sec. 272. Disposal of coal.”

11 and inserting in lieu thereof the following:

 “Sec. 272. Disposal of coal or *domestic* iron ore.”

12 (5) Section 1016 (a) (15) is amended by inserting
 13 “or *domestic* iron ore” after “coal”.

14 (6) Section 1402 (a) (3) (B) is amended to read
 15 as follows:

16 “(B) from the cutting of timber, or the dis-
 17 posal of timber, coal, or iron ore, if section 631
 18 applies to such gain or loss, or”

1 (7) *Section 211(a)(3) of the Social Security Act*
 2 *is amended by striking out clause (B) and inserting in*
 3 *lieu thereof “(B) from the cutting of timber, or the dis-*
 4 *posal of timber, coal, or iron ore, if section 631 of the*
 5 *Internal Revenue Code of 1954 applies to such gain or*
 6 *loss,”.*

7 ~~(e) EFFECTIVE DATE.~~—The amendments made by this
 8 section shall apply to iron ore mined in taxable years begin-
 9 ning after December 31, 1963.

10 (c) *EFFECTIVE DATE.*—The amendments made by this
 11 section shall apply with respect to amounts received or ac-
 12 crued in taxable years beginning after December 31, 1963,
 13 attributable to iron ore mined in such taxable years.

14 SEC. 229. *INSURANCE COMPANIES.*

15 (a) *CERTAIN MUTUALIZATION DISTRIBUTIONS MADE*
 16 *IN 1962.*—

17 (1) *DEDUCTION FOR CERTAIN MUTUALIZATION*
 18 *DISTRIBUTIONS.*—Section 809(d)(11) (relating to
 19 deductions in computing gain from operations in the
 20 case of certain mutualization distributions) is amended
 21 by striking out “and 1961” and inserting in lieu thereof
 22 “1961, and 1962”.

23 (2) *APPLICATION OF SECTION 815.*—Section
 24 809(g)(3) (relating to application of section 815 to
 25 certain mutualization distributions) is amended by strik-

ing out "or 1961" and inserting in lieu thereof "1961, or 1962".

(b) ACCRUAL OF BOND DISCOUNT.—

(1) LIFE INSURANCE COMPANIES.—Section 818

(b) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new paragraph:

"(3) EXCEPTION.—For taxable years beginning after December 31, 1962, no accrual of discount shall be required under paragraph (1) on any bond (as defined in section 171(d)), except in the case of discount which is—

"(A) interest to which section 103 applies, or

"(B) original issue discount (as defined in section 1232(b)).

For purposes of section 805(b)(3)(A), the current earnings rate for any taxable year beginning before January 1, 1963, shall be determined as if the preceding sentence applied to such taxable year."

(2) MUTUAL INSURANCE COMPANIES.—Section 822(d)(2) (relating to amortization of premium and accrual of discount) is amended by adding at the end thereof the following new sentence: "For taxable years beginning after December 31, 1962, no accrual of dis-

1 *count shall be required under this paragraph on any bond*
 2 *(as defined in section 171(d))."*

3 *(c) CONTRIBUTIONS TO QUALIFIED, ETC., PLANS.—*

4 *Section 832(c)(10) (relating to deductions allowed in com-*
 5 *puting taxable income of certain insurance companies) is*
 6 *amended by inserting before the semicolon at the end thereof*
 7 *"and in part I of subchapter D (sec. 401 and following, relat-*
 8 *ing to pension, profit-sharing, stock bonus plans, etc.)".*

9 *(d) EFFECTIVE DATES.—The amendment made by sub-*
 10 *section (a) shall apply to taxable years beginning after De-*
 11 *cember 31, 1961. The amendment made by subsection (c)*
 12 *shall apply to taxable years beginning after December 31,*
 13 *1953, and ending after August 16, 1954.*

14 **SEC. 230. REGULATED INVESTMENT COMPANIES.**

15 *(a) TIME FOR MAILING CERTAIN NOTICES TO*
 16 *SHAREHOLDERS.—The following provisions (relating to*
 17 *notices to shareholders by regulated investment companies)*
 18 *are amended by striking out "30 days", wherever appearing*
 19 *therein, and inserting in lieu thereof "45 days":*

20 *(1) Section 852(b)(3)(C),*

21 *(2) Section 852(b)(3)(D)(i),*

22 *(3) Section 853(c),*

23 *(4) Section 854(b)(2), and*

24 *(5) Section 855(c).*

1 **(b) CERTAIN REDEMPTIONS BY UNIT INVESTMENT**
 2 *TRUSTS.*—Section 852 (relating to taxation of regulated in-
 3 vestment companies and their shareholders) is amended by
 4 adding at the end thereof the following new subsection:

5 **“(d) DISTRIBUTIONS IN REDEMPTION OF INTERESTS**
 6 *IN UNIT INVESTMENT TRUSTS.*—In the case of a unit
 7 investment trust—

8 “(1) which is registered under the Investment Com-
 9 pany Act of 1940 and issues periodic payment plan
 10 certificates (as defined in such Act), and

11 “(2) substantially all of the assets of which consist of
 12 securities issued by a management company (as defined in
 13 such Act),

14 section 562(c) (relating to preferential dividends) shall not
 15 apply to a distribution by such trust to a holder of an interest
 16 in such trust in redemption of part or all of such interest,
 17 with respect to the net capital gain of such trust attributable
 18 to such redemption.”

19 **(c) EFFECTIVE DATES.**—The amendments made by
 20 subsection (a) shall apply to taxable years of regulated invest-
 21 ment companies ending on or after the date of the enactment
 22 of this Act. The amendment made by subsection (b) shall
 23 apply to taxable years of regulated investment companies
 24 ending after December 31, 1963.

1 SEC. 231. FOREIGN TAX CREDIT WITH RESPECT TO CER-
 2 TAIN FOREIGN MINERAL INCOME.

3 (a) LIMITATION ON AMOUNT OF FOREIGN TAXES TO
 4 BE TAKEN INTO ACCOUNT.—Section 901 (relating to taxes
 5 of foreign countries and possessions of the United States) is
 6 amended—

7 (1) by redesignating subsection (d) as (e); and

8 (2) by inserting after subsection (c) the following
 9 new subsection:

10 “(d) FOREIGN TAXES ON MINERAL INCOME.—

11 “(1) REDUCTION OF AMOUNTS TO BE TAKEN
 12 INTO ACCOUNT.—

13 “(A) PER-COUNTRY LIMITATION TAXPAY-
 14 ERS.—In the case of a taxpayer to whom the limita-
 15 tion provided by section 904(a)(1) applies for the
 16 taxable year, the amount of taxes paid or accrued
 17 during the taxable year to any foreign country with
 18 respect to mineral income which would (but for
 19 this paragraph) be taken into account for purposes
 20 of this subpart shall be reduced by the amount (if
 21 any) by which—

22 “(i) the amount of such taxes (or, if

1 *smaller, the amount of the tax which would be*
 2 *computed under this chapter with respect to*
 3 *such income determined without the deduction*
 4 *allowed under section 613), exceeds*

5 “(ii) *the amount of the tax computed un-*
 6 *der this chapter with respect to such income.*

7 “(B) *OVERALL LIMITATION TAXPAYERS.—*

8 *In the case of a taxpayer to whom the limitation*
 9 *provided by section 904(a)(2) applies for the tax-*
 10 *able year, the amount of taxes paid or accrued*
 11 *during the taxable year to all foreign countries*
 12 *with respect to mineral income which would (but*
 13 *for this paragraph) be taken into account for pur-*
 14 *poses of this subpart shall be reduced by the amount*
 15 *(if any) by which—*

16 “(i) *the amount of such taxes (or, if*
 17 *smaller, the amount of the tax which would be*
 18 *computed under this chapter with respect to*
 19 *such income determined without the deduction*
 20 *allowed under section 613), exceeds*

21 “(ii) *the amount of tax computed under*
 22 *this chapter with respect to such income.*

1 “(2) *MINERAL INCOME.*—

2 “(A) *IN GENERAL.*—For purposes of this sub-
3 section, the term ‘mineral income’ means income de-
4 rived from sources without the United States from
5 mineral activities, including, but not limited to—

6 “(i) dividends received from corporations
7 in which 5 percent or more of the voting stock
8 is owned directly or indirectly by the taxpayer,
9 to the extent such dividends are attributable to
10 mineral activities, and

11 “(ii) that portion of the taxpayer’s distribu-
12 tive share of income of partnerships attributable
13 to mineral activities.

14 “(B) *MINERAL ACTIVITIES.*—For purposes of
15 subparagraph (A), the term ‘mineral activities’ in-
16 cludes the extraction of minerals from mines, wells,
17 or other natural deposits, the processing of such
18 minerals into their primary products, and the trans-
19 portation, distribution, or sale of such minerals or
20 primary products.”

21 “(b) *EFFECTIVE DATE.*—The amendments made by sub-
22 section (a) shall apply with respect to taxable years be-
23 ginning after December 31, 1963.

1 **SEC. 232. AMOUNTS RECEIVED FROM EMPLOYER ON SALE**
 2 **OF RESIDENCE OF EMPLOYEE IN CONNECTION**
 3 **WITH TRANSFER TO NEW PLACE OF WORK.**

4 *(a) TREATMENT OF CERTAIN AMOUNTS RECEIVED*
 5 *FROM EMPLOYER ON SALE OF RESIDENCE OF EMPLOYEE*
 6 *IN CONNECTION WITH TRANSFER TO NEW PLACE OF*
 7 *WORK.—*

8 *(1) Part I of subchapter O of chapter 1 (relating*
 9 *to determination of amount of and recognition of gain*
 10 *or loss) is amended by adding at the end thereof the*
 11 *following new section:*

12 **“SEC. 1003. AMOUNTS RECEIVED FROM EMPLOYER ON**
 13 **SALE OF RESIDENCE OF EMPLOYEE IN CON-**
 14 **NECTION WITH TRANSFER TO NEW PLACE**
 15 **OF WORK.**

16 **“(a) GENERAL RULE.—If—**

17 *“(1) property (in this section called ‘old resi-*
 18 *dence’) used by the taxpayer as his principal resi-*
 19 *dence is sold by the taxpayer or his spouse pursuant*
 20 *to a sales contract entered into within the forced sale*
 21 *period for the old residence, and*

22 *“(2) the taxpayer’s employer, not later than one*
 23 *year after the date such sales contract was entered into,*

1 *pays part or all of the sale differential on the old resi-*
 2 *dence,*

3 *then, for purposes of this chapter, the amount so paid shall*
 4 *be treated by the taxpayer or his spouse (as the case may be)*
 5 *as an additional amount realized on the sale of the old resi-*
 6 *dence to the extent that it does not exceed the lesser of (A)*
 7 *the sale differential, or (B) 15 percent of the gross sales*
 8 *price of the old residence.*

9 *“(b) LIMITATIONS.—*

10 *“(1) PERIOD OF EMPLOYMENT.—This section shall*
 11 *not apply unless, for the six-month period ending on the*
 12 *day on which the taxpayer commences work at the new*
 13 *principal place of work, he was an employee of the*
 14 *employer.*

15 *“(2) LOCATION OF NEW PLACE OF WORK.—This*
 16 *section shall not apply unless the taxpayer’s new prin-*
 17 *cipal place of work—*

18 *“(A) is at least 20 miles farther from the old*
 19 *residence than was his former principal place of*
 20 *work, or*

21 *“(B) if he had no former principal place of*
 22 *work, is at least 20 miles from the old residence.*

23 *“(c) DEFINITIONS; SPECIAL RULES.—For purposes*
 24 *of this section—*

25 *“(1) FORCED SALE PERIOD.—The term ‘forced*

1 *sale period' means the period beginning 90 days be-*
 2 *fore, and ending 180 days after, the date on which the*
 3 *taxpayer commences work as an employee at the new*
 4 *principal place of work.*

5 “(2) *SALE DIFFERENTIAL.*—The term ‘sale dif-
 6 *ferential' means the amount by which—*

7 “(A) *the appraised value of the old residence,*
 8 *exceeds*

9 “(B) *the gross sales price of the old residence*
 10 *reduced by the selling commissions, legal fees, and*
 11 *other expenses incident to the transfer of ownership*
 12 *of the old residence.*

13 “(3) *APPRAISED VALUE.*—The appraised value of
 14 *the old residence is the average of two or more appraisals*
 15 *of fair market value made, on or after the valuation date*
 16 *and on or before the date on which the sales contract is*
 17 *entered into, by independent real estate appraisers se-*
 18 *lected by the employer, but shall not exceed the fair mar-*
 19 *ket value. Determination of appraised value shall be*
 20 *made as of the valuation date.*

21 “(4) *VALUATION DATE.*—The term ‘valuation
 22 *date' means the date selected by the employer for pur-*
 23 *poses of determining the amount to be paid with re-*
 24 *spect to the sale differential. Such date shall be on or*

1 *before the date the sales contract is entered into and*
2 *within the forced sale period.*

3 “(5) *EMPLOYER.*—The term ‘employer’ means the
4 *person who employs the taxpayer as an employee at the*
5 *new principal place of work. Such term includes any*
6 *predecessor or successor corporation and any parent cor-*
7 *poration or subsidiary corporation. For purposes of the*
8 *preceding sentence, the determination of whether a cor-*
9 *poration is a parent corporation or a subsidiary corpora-*
10 *tion shall be made under subsections (e) and (f) of*
11 *section 425 but by reference to the date on which the*
12 *taxpayer commences work as an employee at the new*
13 *principal place of work (in lieu of as of the time of the*
14 *granting of the option).*

15 “(6) *EXCHANGES.*—An exchange by the taxpayer
16 *or his spouse of an old residence for other property shall*
17 *be treated as a sale.*

18 “(7) *TENANT-STOCKHOLDER IN A COOPERATIVE*
19 *HOUSING CORPORATION.*—References to property used
20 *by the taxpayer as his principal residence includes stock*
21 *held by a tenant-stockholder (as defined in section 216)*
22 *in a cooperative housing corporation (as defined in such*
23 *section) if the house or apartment which the taxpayer*
24 *was entitled to occupy as such stockholder was used by*
25 *him as his principal residence.*

1 “(d) *REGULATIONS.*—The Secretary or his delegate
2 shall prescribe such regulations as may be necessary to carry
3 out the purposes of this section.”

4 (2) The table of sections for part I of subchapter O
5 of chapter 1 is amended by adding at the end thereof
6 the following:

“Sec. 1003. Amounts received from employer on sale of resi-
dence of employee in connection with transfer
to new place of work.”

7 (b) *EFFECTIVE DATE.*—The amendments made by sub-
8 section (a) shall apply to amounts paid with respect to sales
9 contracts entered into after December 31, 1963, in taxable
10 years ending after such date.

11 **SEC. 219. CAPITAL GAINS AND LOSSES.**

12 ~~(a) ALTERNATIVE TAX, ETC.—~~

13 ~~(1) IN GENERAL.—~~

14 ~~(A) ALTERNATIVE TAX.~~—Subsection ~~(b)~~ of
15 section 1201 ~~(relating to alternative tax on tax-~~
16 ~~payers other than corporations)~~ is amended to read
17 as follows:

18 “(b) *OTHER TAXPAYERS.*—If, for any taxable year, a
19 taxpayer ~~(other than a corporation)~~ is allowed a deduc-
20 tion under section 1202, then, in lieu of the tax imposed
21 by sections 1 and 511(b), there is hereby imposed a tax (if
22 such a tax is less than the tax imposed by such sections)
23 which shall consist of the sum of—

1 ~~“(1)~~ a partial tax computed on the taxable income
2 reduced by an amount equal to the sum of—

3 ~~“(A)~~ 40 percent of the adjusted class A capital
4 gain, and

5 ~~“(B)~~ 50 percent of the adjusted class B capital
6 gain,

7 plus

8 ~~“(2)~~ an amount equal to the sum of—

9 ~~“(A)~~ 21 percent of the adjusted class A
10 capital gain, and

11 ~~“(B)~~ 25 percent of the adjusted class B capital
12 gain.”

13 ~~(B)~~ DEDUCTION FOR CAPITAL GAINS.—See
14 tion 1202 (relating to deduction for capital gains)
15 is amended to read as follows:

16 **“SEC. 1202. DEDUCTION FOR CAPITAL GAINS.**

17 ~~“(a)~~ GENERAL RULE.—In the case of a taxpayer other
18 than a corporation, a deduction from gross income shall
19 be allowed equal to the sum of—

20 ~~“(1)~~ 60 percent of the adjusted class A capital
21 gain, and

22 ~~“(2)~~ 50 percent of the adjusted class B capital
23 gain.

24 ~~“(b)~~ SPECIAL RULE.—In the case of an estate or trust,
25 the deduction allowable under subsection ~~(a)~~ shall be com-

1 puted by excluding the portion (if any), of the gains for
 2 the taxable year from sales or exchanges of capital assets,
 3 which, under sections 652 and 662 (relating to inclusions
 4 of amounts in gross income of beneficiaries of trusts), is
 5 includible by the income beneficiaries as gain derived from
 6 the sale or exchange of capital assets."

7 (C) DEFINITIONS.—Section 1222 (relating to
 8 other terms relating to capital gains and losses) is
 9 amended to read as follows:

10 **"SEC. 1222. OTHER TERMS RELATING TO CAPITAL GAINS**
 11 **AND LOSSES.**

12 **"(a) TERMS APPLICABLE TO ALL TAXPAYERS.—**For
 13 purposes of this subtitle—

14 **"(1) SHORT-TERM CAPITAL GAIN.—**The term
 15 'short-term capital gain' means gain from the sale or
 16 exchange of a capital asset held for not more than 6
 17 months, if and to the extent such gain is taken into ac-
 18 count in computing gross income.

19 **"(2) SHORT-TERM CAPITAL LOSS.—**The term
 20 'short-term capital loss' means loss from the sale or
 21 exchange of a capital asset held for not more than 6
 22 months, if and to the extent that such loss is taken into
 23 account in computing taxable income.

24 **"(3) NET SHORT-TERM CAPITAL GAIN.—**The term
 25 'net short-term capital gain' means the excess of short-

1 term capital gains for the taxable year over the short-
 2 term capital losses for such year.

3 “(4) ~~NET SHORT-TERM CAPITAL LOSS.~~—The term
 4 ‘net short-term capital loss’ means the excess of short-
 5 term capital losses for the taxable year over the short-
 6 term capital gains for such year.

7 “(b) ~~TERMS APPLICABLE TO CORPORATIONS.~~—For
 8 purposes of this subtitle, in the case of a corporation—

9 “(1) ~~LONG-TERM CAPITAL GAIN.~~—The term ‘long-
 10 term capital gain’ means gain from the sale or exchange
 11 of a capital asset held for more than 6 months, if and to
 12 the extent such gain is taken into account in computing
 13 gross income.

14 “(2) ~~LONG-TERM CAPITAL LOSS.~~—The term ‘long-
 15 term capital loss’ means loss from the sale or exchange
 16 of a capital asset held for more than 6 months, if and to
 17 the extent that such loss is taken into account in com-
 18 puting taxable income.

19 “(3) ~~NET LONG-TERM CAPITAL GAIN.~~—The term
 20 ‘net long-term capital gain’ means the excess of long-
 21 term capital gains for the taxable year over the long-
 22 term capital losses for such year.

23 “(4) ~~NET LONG-TERM CAPITAL LOSS.~~—The term

1 'net long-term capital loss' means the excess of long-
 2 term capital losses for the taxable year over the long-
 3 term capital gains for such year.

4 “(5) NET CAPITAL GAIN.—The term 'net capital
 5 gain' means the excess of the gains from sales or ex-
 6 changes of capital assets over the losses from such sales
 7 or exchanges.

8 “(6) NET CAPITAL LOSS.—The term 'net capital
 9 loss' means the excess of the losses from sales or ex-
 10 changes of capital assets over the sum allowed under
 11 section 1211(a). For purposes of determining losses
 12 under this paragraph, amounts which are short-term
 13 capital losses under section 1212 shall be excluded.

14 “(c) TERMS APPLICABLE TO TAXPAYERS OTHER
 15 THAN CORPORATIONS.—For purposes of this subtitle, in
 16 the case of a taxpayer other than a corporation—

17 “(1) CLASS B CAPITAL GAIN.—The term 'class
 18 B capital gain' means gain from the sale or exchange of
 19 a capital asset held for more than 6 months but not
 20 more than 2 years, if and to the extent such gain is
 21 taken into account in computing gross income.

22 “(2) CLASS B CAPITAL LOSS.—The term 'class B
 23 capital loss' means loss from the sale or exchange of a

1 capital asset held for more than 6 months but not more
2 than 2 years, if and to the extent that such loss is taken
3 into account in computing taxable income.

4 “(3) CLASS A CAPITAL GAIN.—The term ‘class A
5 capital gain’ means gain from the sale or exchange of a
6 capital asset held for more than 2 years, if and to the
7 extent such gain is taken into account in computing
8 gross income.

9 “(4) CLASS A CAPITAL LOSS.—The term ‘class A
10 capital loss’ means loss from the sale or exchange of
11 a capital asset held for more than 2 years, if and to
12 the extent that such loss is taken into account in com-
13 puting taxable income.

14 “(5) NET CLASS B CAPITAL GAIN.—The term ‘net
15 class B capital gain’ means the excess of class B capital
16 gains for the taxable year over the class B capital losses
17 for such year.

18 “(6) NET CLASS B CAPITAL LOSS.—The term ‘net
19 class B capital loss’ means the excess of class B capital
20 losses for the taxable year over the class B capital gains
21 for such year.

22 “(7) NET CLASS A CAPITAL GAIN.—The term
23 ‘net class A capital gain’ means the excess of class A
24 capital gains for the taxable year over the class A capital
25 losses for such year.

1 “(8) NET CLASS A CAPITAL LOSS.—The term ‘net
2 class A capital loss’ means the excess of class A capital
3 losses for the taxable year over the class A capital gains
4 for such year.

5 “(9) ADJUSTED CLASS B CAPITAL GAIN.—The
6 term ‘adjusted class B capital gain’ means the net class
7 B capital gain for the taxable year reduced by losses
8 which reduce such net gain as provided in subsection
9 (d).

10 “(10) ADJUSTED CLASS A CAPITAL GAIN.—The
11 term ‘adjusted class A capital gain’ means the net class
12 A capital gain for the taxable year reduced by losses
13 which reduce such net gain as provided in subsection
14 (d).

15 “(d) RULES FOR REDUCING NET CAPITAL GAINS BY
16 CAPITAL LOSSES.—For purposes of paragraphs (9) and
17 (10) of subsection (c) and for purposes of reducing any net
18 short-term capital gain, if for a taxable year a taxpayer
19 (other than a corporation) has a net short-term, net class
20 B, or net class A capital loss, such loss shall reduce any net
21 short-term, net class B, or net class A capital gain for such
22 year by applying paragraph (1), then paragraph (2), and
23 then paragraph (3):

24 “(1) A net class A capital loss shall reduce first

1 any net class B capital gain and then any net short-
2 term capital gain.

3 “~~(2)~~ A net class B capital loss shall reduce first
4 any net class A capital gain and then any net short-term
5 capital gain.

6 “~~(3)~~ A net short-term capital loss shall reduce
7 first any net class B capital gain and then any net class
8 A capital gain.”

9 ~~(2)~~ PROPERTY USED IN THE TRADE OR BUSINESS
10 AND INVOLUNTARY CONVERSIONS.—

11 ~~(A)~~ Subsection ~~(a)~~ of section 1231 ~~(relating~~
12 ~~to property used in a trade or business)~~ is amended
13 to read as follows:

14 “~~(a)~~ GENERAL RULE.—If, during the taxable year—

15 “~~(1)~~ the recognized gains from sales or exchanges
16 of property used in the trade or business, plus

17 “~~(2)~~ the recognized gains from the compulsory or
18 involuntary conversion ~~(as a result of destruction, in~~
19 ~~whole or in part, theft or seizure, or an exercise of~~
20 ~~the power of requisition or condemnation or the threat~~
21 ~~or imminence thereof)~~ of property used in the trade or
22 business and of capital assets held for more than 6
23 months into other property or money,

24 exceed the recognized losses from such sales, exchanges, and
25 conversions, each such gain or loss shall be considered as gain

1 or loss from the sale or exchange of a capital asset. If such
 2 gains do not exceed such losses, such gains and losses shall
 3 not be considered as gains and losses from sales or exchanges
 4 of capital assets."

5 (B) Section 1231 is amended by adding at the
 6 end thereof the following new subsection:

7 "(c) SPECIAL RULES.—

8 "(1) GAINS AND LOSSES TAKEN INTO ACCOUNT.—

9 For purposes of subsection (a)—

10 "(A) Any gain described in subsection (a)
 11 shall be included—

12 "(i) only if and to the extent taken into
 13 account in computing gross income; and

14 "(ii) only to the extent not required (by
 15 any provision of this subtitle other than this
 16 section) to be treated as gain from the sale or
 17 exchange of property which is neither a capital
 18 asset nor property described in this section.

19 "(B) Losses described in subsection (a) shall
 20 be included only if and to the extent taken into
 21 account in computing taxable income, except that
 22 section 1211 shall not apply.

23 "(C) Losses upon the destruction, in whole or
 24 in part, theft or seizure, or requisition or condem-

1 nation of property used in the trade or business and
 2 held for more than 6 months, or of a capital asset
 3 held for more than 6 months, shall be considered
 4 losses from a compulsory or involuntary conversion.

5 ~~“(2) CERTAIN LOSSES FROM CASUALTY OR~~
 6 ~~THEFT.~~—In the case of any property used in the trade
 7 or business, and in the case of any capital asset held for
 8 more than 6 months and held for the production of
 9 income, subsection ~~“(a)~~ shall not apply to any loss, in
 10 respect of which the taxpayer is not compensated for
 11 by insurance in any amount, arising from fire, storm,
 12 shipwreck, or other casualty or from theft.

13 ~~“(3) GAINS AND LOSSES TREATED AS CLASS B~~
 14 ~~GAINS AND LOSSES.~~—In the case of a taxpayer other
 15 than a corporation, gain or loss—

16 ~~“(A) from a sale, exchange, or conversion of~~
 17 property to which subsection ~~“(b) (2), (3), or~~
 18 ~~(4)~~ applies, and

19 ~~“(B) which by reason of subsection (a) is~~
 20 considered as gain or loss from the sale or exchange
 21 of a capital asset,

22 shall be considered as class B capital gain or loss whether
 23 or not such property was held for more than 2 years.”

24 ~~(3) CERTAIN DISTRIBUTIONS UNDER EMPLOYEES~~
 25 ~~TRUSTS AND ANNUITY PLANS.—~~

1 ~~[(A)]~~ DISTRIBUTION UNDER EMPLOYEES'
 2 TRUSTS.—Section 402(a) ~~[(relating to taxability of~~
 3 beneficiary of exempt trust) is amended—

4 (i) by adding at the end of paragraph ~~[(1)]~~
 5 the following new sentence: “Any gain on the
 6 subsequent sale or other disposition of any
 7 such security by the distributee (or by any
 8 other person in whose hands the basis of such
 9 security is determined by reference to the basis
 10 of the security in the hands of the distributee)
 11 shall, to the extent of the amount of such net
 12 unrealized appreciation attributable to such
 13 security, be considered a gain from the sale
 14 or exchange of a capital asset held for more than
 15 6 months but not more than 2 years.”;

16 (ii) by adding immediately before the pe-
 17 riod at the end of the first sentence of paragraph
 18 ~~[(2)]~~ the words “but not more than 2 years”;
 19 and

20 (iii) by adding immediately before the last
 21 sentence of paragraph ~~[(2)]~~ the following new
 22 sentence: “Any gain on the subsequent sale
 23 or other disposition of any such security by
 24 the distributee (or by any other person in
 25 whose hands the basis of such security is de-

1 terminated by reference to the basis of the secu-
 2 rity in the hands of the distributee) shall, to
 3 the extent of the amount of such net unrealized
 4 appreciation attributable to such security, be
 5 considered a gain from the sale or exchange
 6 of a capital asset held for more than 6 months
 7 but not more than 2 years.”

8 ~~(B)~~ DISTRIBUTIONS UNDER EMPLOYEE AN-
 9 NUITIES.—Section 403(a)(2)(A) ~~(relating to~~
 10 capital gains treatment for certain distributions) is
 11 amended by adding immediately before the period
 12 at the end of the first sentence the words “but not
 13 more than 2 years”.

14 ~~(C)~~ EFFECTIVE DATE.—

15 ~~(i)~~ The amendments made by subpara-
 16 graphs ~~(A)(ii)~~ and ~~(B)~~ shall apply with re-
 17 spect to distributions or amounts paid in tax-
 18 able years of the distributees beginning after
 19 December 31, 1963.

20 ~~(ii)~~ The amendments made by subpara-
 21 graphs ~~(A)(i)~~ and ~~(iii)~~ shall apply with re-
 22 spect to securities which are sold or otherwise
 23 disposed of in taxable years beginning after
 24 December 31, 1963.

25 ~~(4)~~ SALE OR EXCHANGE OF PATENTS.—Subsec-

tion ~~(a)~~ of section 1235 (relating to the sale or exchange of patents) is amended by adding at the end thereof the following new sentences:

“In the case of a holder described in subsection ~~(b)~~(1), any gain or loss on such a transfer shall be treated as class B capital gain or loss. In the case of a holder described in subsection ~~(b)~~(2), any gain or loss on such a transfer shall be treated as class A, or class B, capital gain or loss depending on the period for which the property was held (or deemed held).”

~~(5)~~ EMPLOYEE TERMINATION PAYMENTS.—Section 1240 (relating to taxability to employee of termination payments) is amended by striking out “6 months” and inserting in lieu thereof “6 months but not more than 2 years”.

~~(b)~~ UNLIMITED CAPITAL LOSS CARRYOVER.—Section 1212 (relating to capital loss carryover) is amended—

~~(1)~~ by striking out “If for any taxable year the taxpayer” and inserting in lieu thereof:

“(a) CORPORATIONS.—If for any taxable year a corporation”; and

~~(2)~~ by adding the following new subsection:

“(b) OTHER TAXPAYERS.—

“(1) To the extent, for any taxable year, a taxpayer, other than a corporation, has a net short-term

1 net class B, or net class A capital loss which does not
2 reduce capital gains under the rules provided in section
3 1222(d), such loss, reduced as provided in paragraph
4 (2), shall be carried forward and treated in the suc-
5 ceeding taxable year as a short-term, class B, or class A
6 capital loss, as the case may be, sustained in such suc-
7 ceeding year.

8 “(2) An amount equal to the excess of the sum
9 allowable under section 1211(b) over the gains from
10 sales or exchanges of capital assets for the taxable year
11 shall reduce, in order, any net short-term, class B, or
12 class A capital loss for the taxable year which does
13 not reduce capital gains for such year under the rules
14 provided in section 1222(d).

15 “(3) For purposes of this subsection, a net capital
16 loss for a taxable year beginning before January 1,
17 1964, shall be determined under the applicable law
18 relating to the computation of capital gains and losses
19 in effect before such date, and the amount of any such
20 capital loss so determined which such applicable law
21 allows to be carried over to the first taxable year of the
22 taxpayer beginning after December 31, 1963, shall be
23 treated as a short-term capital loss occurring in such
24 taxable year.”

~~(e)~~ TECHNICAL AMENDMENTS.—

(1) Section 172~~(d)~~(2)~~(B)~~ (relating to net operating loss deduction) is amended by striking out “long term”.

(2) Section 333~~(c)~~(2) (relating to noncorporate shareholders of certain liquidating corporations) is amended by striking out “short term or long term capital gain,” and inserting in lieu thereof “short term, class A, or class B capital gain,”.

(3) Section 341(a) (relating to collapsible corporations) is amended by striking out “6 months” and inserting in lieu thereof “6 months but not more than 2 years or held for more than 2 years, as the case may be,”.

(4) Section 584~~(c)~~(1) (relating to common trust funds) is amended—

(A) by striking out in subparagraph (B) wherever it appears “6 months” and inserting in lieu thereof “6 months but not more than 2 years”, and

(B) by redesignating subparagraph ~~(C)~~ as subparagraph (D) and by inserting after subparagraph (B) the following new subparagraph:

“(C) as part of its gains and losses from sales

1 or exchanges of capital assets held for more than 2
2 years, its proportionate share of the gains and losses
3 of the common trust fund from sales or exchanges of
4 capital assets held for more than 2 years;”.

5 ~~(5)~~ Section 642(e) ~~(relating to special rules for~~
6 credits and deductions) is amended by striking out
7 “6 months,” and inserting in lieu thereof “6 months but
8 not more than 2 years or held for more than 2 years,
9 as the case may be,”.

10 ~~(6)~~ Section 702(a)(2) ~~(relating to income and~~
11 credits of partners) is amended by striking out “6
12 months,” and inserting in lieu thereof “6 months but
13 not more than 2 years or held for more than 2 years, as
14 the case may be,”.

15 ~~(7)~~ (A) Section 852 ~~(relating to taxation of reg-~~
16 ulated investment companies and their shareholders)
17 is amended by striking out subparagraphs (B) and (C)
18 of subsection (b)(3) and inserting in lieu thereof the
19 following:

20 ~~“(B)~~ TREATMENT OF CAPITAL GAIN DIVI-
21 DENDS BY SHAREHOLDERS.—A capital gain divi-
22 dend shall be treated by shareholders, other than
23 corporations, as a class A or class B capital gain to
24 the extent so designated by the company.—Share-

holders which are corporations shall treat a capital gain dividend as a long-term capital gain.

“(C) DEFINITION OF CAPITAL GAIN DIVIDEND.—For purposes of this part, a capital gain dividend is any dividend, or part thereof, which is designated by the company in a written notice mailed to its shareholders not later than 30 days after the close of its taxable year, as a distribution of class A or class B capital gain. In the case of a shareholder which is a corporation, if the aggregate amount designated as a capital gain dividend with respect to a taxable year of the company (including capital gains dividends paid after the close of the taxable year described in section 855) is greater than the excess of the net long-term capital gain over the net short-term capital loss of the taxable year, the portion of each distribution which shall be a capital gain dividend shall be only that proportion of the amount so designated which such excess of the net long-term capital gain over the net short-term capital loss bears to the aggregate amount so designated. In the case of a shareholder other than a corporation, if the aggregate amount designated as class A capital gain, or as class B capital gain,

with respect to a taxable year of the company (including capital gains dividends paid after the close of the taxable year described in section 855) is greater than the adjusted class A, or adjusted class B capital gain, respectively—

“(i) the portion of each distribution which shall be treated as a class A capital gain shall be only that proportion of the amount so designated as class A capital gain which the adjusted class A capital gain bears to the aggregate amount so designated; and

“(ii) the portion of each distribution which shall be treated as a class B capital gain shall be only that proportion of the amount so designated as class B capital gain which the adjusted class B capital gain bears to the aggregate amount so designated.

For purposes of the preceding sentence, the adjusted class A or adjusted class B capital gain shall be computed as though the company were a taxpayer other than a corporation except that section 1212(a) shall apply in lieu of section 1212(b).”

(B) Section 852(b)(3)(D) is amended by striking out clauses (i), (ii), and (iii) and inserting in lieu thereof the following:

1 “(i) Every shareholder of a regulated
2 investment company at the close of the com-
3 pany’s taxable year shall, in the case of a cor-
4 poration, in computing its long-term capital
5 gains, and, in the case of a shareholder other
6 than a corporation, in computing his class A and
7 class B capital gains, include in his return for his
8 taxable year in which the last day of the com-
9 pany’s taxable year falls, such amounts as the
10 company shall designate in respect of such
11 shares in a written notice mailed to its share-
12 holders at any time prior to the expiration of
13 30 days after the close of its taxable year, but the
14 amount so includible by any shareholder shall
15 not exceed that part of the amount subjected to
16 tax in subparagraph (A) which he would have
17 received if all of such amount had been dis-
18 tributed as capital gain dividends by the com-
19 pany to the holders of such shares at the close
20 of its taxable year.

21 “(ii) For purposes of this title, every such
22 shareholder shall be deemed to have paid, for
23 his taxable year under clause (i), the tax of
24 25 percent imposed by subparagraph (A) on
25 the amounts required by this subparagraph to

1 be included in respect of such shares, in the case
 2 of a corporation, in computing its long-term
 3 capital gains, and, in the case of a shareholder
 4 other than a corporation, in computing his class
 5 A and class B capital gains, for that year; and
 6 such shareholder shall be allowed credit or re-
 7 fund, as the case may be, for the tax so deemed
 8 to have been paid by him.

9 “(iii) The adjusted basis of such shares in
 10 the hands of the shareholder shall be increased
 11 by 75 percent of the amount required by this
 12 subparagraph to be included in computing his
 13 capital gains.”

14 ~~(C)~~ Section 852(b)(4) is amended to read as
 15 follows:

16 “(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
 17 LESS THAN 31 DAYS. If, under subparagraph ~~(B)~~ or
 18 ~~(D)~~ of paragraph ~~(3)~~ a shareholder of a regulated in-
 19 vestment company is required, with respect to any share,
 20 to treat any amount as long term, class A, or class B
 21 capital gain, and such share is held by the taxpayer for
 22 less than 31 days, then any loss on the sale or exchange
 23 of such share shall—

24 “~~(A)~~ in the case of a corporation, to the extent
 25 of such long-term capital gain, be treated as loss

1 from the sale or exchange of a capital asset held for
2 more than 6 months, or

3 “(B) in the case of a shareholder other than a
4 corporation—

5 “(i) to the extent of such class A capital
6 gain, be treated as loss from the sale or ex-
7 change of a capital asset held for more than
8 2 years; and

9 “(ii) to the extent of such class B capital
10 gain, be treated as loss from the sale or ex-
11 change of a capital asset held for more than 6
12 months but not more than 2 years.

13 If there is a loss on the sale or exchange of such
14 share which is less than the sum of such class A and
15 class B capital gains, then a portion of such loss
16 equal to the proportion which such class A capital
17 gain bears to the sum of such class A and class B
18 capital gains shall be a class A capital loss; and
19 the remainder of such loss shall be a class B capital
20 loss.

21 For purposes of this paragraph, the rules of section
22 246(c)(3) shall apply in determining whether any
23 share of stock has been held for less than 31 days;
24 except that ‘30 days’ shall be substituted for ‘15 days’
25 in subparagraph (B) of section 246(c)(3).”

1 ~~(8)(A)~~ Section 857 (relating to the taxation of
2 real estate investment trusts and their beneficiaries) is
3 amended by striking out subparagraphs ~~(B)~~ and ~~(C)~~
4 of subsection ~~(b)(3)~~ and inserting in lieu thereof the
5 following:

6 ~~“(B)~~ TREATMENT OF CAPITAL GAIN DIVI-
7 DENDS BY SHAREHOLDERS.—A capital gain divi-
8 dend shall be treated by the shareholders or holders
9 of beneficial interests, other than corporations, as a
10 class A or class B capital gain to the extent so desig-
11 nated by the real estate investment trust. Share-
12 holders or holders of beneficial interests which are
13 corporations shall treat a capital gain dividend as a
14 long-term capital gain.

15 ~~“(C)~~ DEFINITION OF CAPITAL GAIN DIVI-
16 DEND.—For purposes of this part, a capital gain
17 dividend is any dividend, or part thereof, which
18 is designated by the real estate investment trust
19 in a written notice mailed to its shareholders or
20 holders of beneficial interests at any time before the
21 expiration of 30 days after the close of its taxable
22 year as a distribution of class A or class B capital
23 gain. In the case of a shareholder or holder of
24 beneficial interest which is a corporation, if the ag-
25 gregate amount designated as a capital gain divi-

1 dend with respect to a taxable year of the trust (in-
2 cluding capital gain dividends paid after the close
3 of the taxable year described in section 858) is
4 greater than the excess of the net long-term capital
5 gain over the net short-term capital loss of the tax-
6 able year; the portion of each distribution which
7 shall be a capital gain dividend shall be only that
8 proportion of the amount so designated which such
9 excess of the net long-term capital gain over the
10 net short-term capital loss bears to the aggregate
11 amount so designated. In the case of a shareholder
12 or holder of a beneficial interest other than a cor-
13 poration; if the aggregate amount designated as
14 class A or as class B capital gain with respect to a
15 taxable year of the trust (including capital gains
16 dividends paid after the close of the taxable year
17 described in section 858) is greater than the ad-
18 justed class A or adjusted class B capital gain, re-
19 spectively—

20 “(i) the portion of each distribution which
21 shall be treated as a class A capital gain shall
22 be only that proportion of the amount so desig-
23 nated as class A capital gain which the adjusted
24 class A capital gain bears to the aggregate
25 amount so designated, and

1 “(ii) the portion of each distribution which
 2 shall be treated as a class B capital gain shall
 3 be only that proportion of the amount so desig-
 4 nated as class B capital gain which the ad-
 5 justed class B capital gain bears to the aggre-
 6 gate amount so designated.

7 For purposes of the preceding sentence, the adjusted
 8 class A or class B capital gain shall be computed as
 9 though the trust were a taxpayer other than a cor-
 10 poration except that section 1212(a) shall apply
 11 in lieu of section 1212(b).”

12 (B) Section 857 is amended by striking out para-
 13 graph (4) of subsection (b) and inserting in lieu thereof
 14 the following:

15 “(4) LOSS ON SALE OR EXCHANGE OF STOCK HELD
 16 LESS THAN 31 DAYS.—If, under subparagraph (B) of
 17 paragraph (3) a shareholder of, or a holder of a bene-
 18 ficial interest in, a real estate investment trust is re-
 19 quired, with respect to any share or beneficial interest,
 20 to treat any amount as a long-term, class A, or class B
 21 capital gain, and such share or interest is held by the
 22 taxpayer for less than 31 days, then any loss on the
 23 sale or exchange of such share or interest shall—

24 “(A) in the case of a corporation, to the ex-
 25 tent of such long-term capital gain, be treated as

1 loss from the sale or exchange of a capital asset
2 held for more than 6 months, or

3 “(B) in the case of a shareholder other than
4 a corporation—

5 “(i) to the extent of such class A capital
6 gain, be treated as loss from the sale or exchange
7 of a capital asset held for more than 2 years,
8 and

9 “(ii) to the extent of such class B capital
10 gain, be treated as loss from the sale or ex-
11 change of a capital asset held for more than 6
12 months but not more than 2 years.

13 If there is a loss on the sale or exchange of such
14 share or interest which is less than the sum of such
15 class A and class B capital gains, then a portion of
16 such loss equal to the proportion which such class
17 A capital gain bears to the sum of such class A
18 and class B capital gains shall be a class A capital
19 loss; and the remainder of such loss shall be a class
20 B capital loss.

21 For purposes of this paragraph, the rules of section
22 246(c)(3) shall apply in determining whether any
23 share of stock or beneficial interest has been held for
24 less than 31 days; except that ‘30 days’ shall be sub-

1 stituted for '15 days' in subparagraph (B) of section
2 246(e)(3)."

3 ~~(9)~~ The last sentence of section 1232(a)(2)(A)
4 ~~(relating to bonds and other evidences of indebtedness)~~
5 is amended to read as follows: "Gain in excess of such
6 amount shall, in the case of a corporation, be considered
7 gain from the sale or exchange of a capital asset held
8 more than 6 months or in the case of a taxpayer other
9 than a corporation, be considered gain from the sale or
10 exchange of a capital asset held for more than 6 months
11 but not more than 2 years or held for more than 2 years,
12 as the case may be."

13 ~~(10)(A)~~ Subsection (b) of section 1233 ~~(relating~~
14 to gains and losses from short sales) is amended to read
15 as follows:

16 ~~"(b)~~ SHORT-TERM AND CLASS B GAINS AND HOLD-
17 ING PERIOD.—If gain or loss from a short sale is considered
18 as gain or loss from the sale or exchange of a capital asset
19 under subsection (a) and if on the date of such short sale
20 substantially identical property has been held by the tax-
21 payer—

22 ~~"(1)~~ for not more than 6 months ~~(determined~~
23 without regard to the effect, under the second sentence
24 of this subsection, of such short sale on the holding
25 period), or if substantially identical property is acquired

1 by the taxpayer after such short sale and on or before
 2 the date of the closing thereof, any gain on the closing
 3 of such short sale shall be considered as a gain on the
 4 sale or exchange of a capital asset held for not more than
 5 6 months (notwithstanding the period of time any
 6 property used to close such short sale has been held); or

7 “(2) in the case of a taxpayer other than a cor-
 8 poration, for more than 6 months but not more than 2
 9 years (determined without regard to the effect, under
 10 the second sentence of this subsection, of such short
 11 sale on the holding period); any gain on the closing of
 12 such short sale shall be considered as a gain on the sale
 13 or exchange of a capital asset held for more than 6
 14 months but not more than 2 years (notwithstanding
 15 the period of time any property used to close such short
 16 sale has been held)-.

17 The holding period of such substantially identical property
 18 shall be considered to begin (notwithstanding section 1223,
 19 relating to the holding period of property) on the date of the
 20 closing of the short sale, or on the date of a sale, gift, or
 21 other disposition of such property, whichever date occurs
 22 first. The preceding sentence shall apply to such substan-
 23 tially identical property in the order of the dates of the ac-
 24 quisition of such property, but only to so much of such
 25 property as does not exceed the quantity sold short. For

1 purposes of this subsection, the acquisition of an option to sell
 2 property at a fixed price shall be considered as a short sale,
 3 and the exercise or failure to exercise such option shall be
 4 considered as a closing of such short sale."

5 ~~(B)~~ Subsection ~~(d)~~ of section 1233 is amended to
 6 read as follows:

7 ~~"(d) LONG-TERM, CLASS A, AND CLASS B LOSSES.—~~

8 If on the date of such short sale substantially identical prop-
 9 erty has been held by the taxpayer—

10 ~~"(1) In the case of a corporation, for more than 6~~
 11 ~~months, any loss on the closing of such short sale shall~~
 12 ~~be considered as a loss on the sale or exchange of a~~
 13 ~~capital asset held for more than 6 months (notwithstand-~~
 14 ~~ing the period of time any property used to close such~~
 15 ~~short sale has been held, and notwithstanding section~~
 16 ~~1234).~~

17 ~~"(2) In the case of a taxpayer other than a corpo-~~
 18 ~~ration—~~

19 ~~"(A) for more than 2 years, any loss on the~~
 20 ~~closing of such short sale shall be considered as a~~
 21 ~~loss on the sale or exchange of a capital asset held~~
 22 ~~for more than 2 years (notwithstanding the period~~
 23 ~~of time any property used to close such short sale~~
 24 ~~has been held, and notwithstanding section 1234),~~
 25 ~~or~~

1 ~~“(B) for more than 6 months but not more~~
 2 ~~than 2 years, any loss on the closing of such short~~
 3 ~~sale shall be considered as a loss on the sale or ex-~~
 4 ~~change of a capital asset held for more than 6~~
 5 ~~months but not more than 2 years (notwithstanding~~
 6 ~~the period of time any property used to close such~~
 7 ~~short sale has been held, and notwithstanding~~
 8 ~~section 1234).”~~

9 ~~(C) Paragraph (1) of section 1233(c) is amended~~
 10 ~~to read as follows:~~

11 ~~“(1) Subsection (b) or (d) shall not apply to the~~
 12 ~~gain or loss, respectively, on any quantity of property~~
 13 ~~used to close such short sale which is in excess of the~~
 14 ~~quantity of the substantially identical property referred~~
 15 ~~to in the applicable subsection. In the case of a tax-~~
 16 ~~payer other than a corporation—~~

17 ~~“(A) subsection (b)(1) or (d)(2)(A)~~
 18 ~~shall not apply to the gain or loss, respectively, on~~
 19 ~~any quantity of property used to close such short~~
 20 ~~sale which is in excess of the quantity of the~~
 21 ~~substantially identical property to which either sub-~~
 22 ~~section (b)(1) or (d)(2)(A) applies (deter-~~
 23 ~~mined without regard to this subparagraph), and~~

24 ~~“(B) subsection (b)(2) or (d)(2)(B) shall~~
 25 ~~apply only to the gain or loss, respectively, on the~~

1 excess described in subparagraph ~~(A)~~, but only
 2 to the extent of the quantity of the substantially
 3 identical property to which either subsection ~~(b)~~
 4 ~~(2)~~ or ~~(d)(2)(B)~~ applies ~~(determined without~~
 5 ~~regard to this subparagraph).~~”

6 ~~(D)~~ Section 1233(c)(4)(A) is amended by strik-
 7 ing out “for not more than 6 months,” in clause ~~(i)~~
 8 and inserting in lieu thereof “in the case of a corporation,
 9 for not more than 6 months, or in the case of a taxpayer
 10 other than a corporation, for not more than 2 years,”
 11 and by striking out “subsection ~~(b)(2)~~” in the lan-
 12 guage following clause ~~(ii)~~ and inserting in lieu thereof
 13 “the second and third sentences of subsection ~~(b)~~”.

14 ~~(E)~~ Section 1233(f) is amended by striking out
 15 “subsection ~~(b)(2)~~” each place it appears and inserting
 16 in lieu thereof “the second and third sentences of sub-
 17 section ~~(b)~~”.

18 ~~(11)(A)~~ Section 1247 ~~(relating to election by~~
 19 ~~foreign investment companies to distribute income cur-~~
 20 ~~rently)~~ is amended by striking out subparagraph ~~(B)~~
 21 of subsection ~~(a)(1)~~ and inserting in lieu thereof the
 22 following:

23 “~~(B)~~ designate in a written notice mailed to
 24 its shareholders at any time before the expiration of
 25 45 days after the close of its taxable year the pro

1 rata amount for the taxable year of the adjusted
 2 class A and adjusted class B capital gain (deter-
 3 mined as though such corporation were a taxpayer
 4 other than a corporation except that section 1212
 5 ~~(a)~~ shall apply in lieu of section 1212(b)); and
 6 the portions thereof which are being distributed;
 7 and”

8 ~~(B)~~ Clause ~~(i)~~ of section 1247(a)(2)(A) is
 9 amended to read as follows:

10 “(i) the adjusted class A and adjusted
 11 class B capital gain referred to in paragraph
 12 ~~(1)(B)~~,”

13 ~~(C)~~ Subparagraph ~~(C)~~ of section 1247(a)(2) is
 14 amended to read as follows:

15 “~~(C)~~ CARRYOVER OF CAPITAL LOSSES FROM
 16 NONELECTION YEARS DENIED.—In computing the
 17 adjusted class A and adjusted class B capital gains
 18 referred to in paragraph ~~(1)(B)~~, section 1212 shall
 19 not apply to losses incurred in or with respect to
 20 taxable years before the first taxable year to which
 21 the election applies.”

22 ~~(D)~~ Section 1247(c)(2) is amended by striking
 23 out “his long-term capital gains” and inserting in lieu
 24 thereof “in the case of a shareholder which is a corpora-
 25 tion, its long-term capital gains, and in the case of a

1 shareholder other than a corporation, his class A and
 2 class B capital gains”;

3 ~~(E)~~ Subsection ~~(d)~~ of section 1247 is amended
 4 to read as follows:

5 “~~(d)~~ TREATMENT OF DISTRIBUTED AND UNDIS-
 6 TRIBUTED CAPITAL GAINS BY A QUALIFIED SHARE-
 7 HOLDER.—Every qualified shareholder of a foreign invest-
 8 ment company for any taxable year of such company with
 9 respect to which an election pursuant to subsection ~~(a)~~ is in
 10 effect shall—

11 “~~(1)~~ if such shareholder is a taxpayer other than
 12 a corporation—

13 “~~(A)~~ include in computing his class A or class
 14 B capital gain for his taxable year in which re-
 15 ceived, his pro rata share of the distributed portion
 16 of the adjusted class A or adjusted class B capital
 17 gain, respectively, and

18 “~~(B)~~ include in computing his class A or class
 19 B capital gain for his taxable year in which or with
 20 which the taxable year of such company ends, his
 21 pro rata share of the undistributed portion of the
 22 adjusted class A or adjusted class B capital gain,
 23 respectively, or

24 “~~(2)~~ if such shareholder is a corporation, include
 25 in computing its long-term capital gains—

1 “(A) for its taxable year in which received,
2 its pro rata share of the distributed portion of the
3 sum of the adjusted class A and adjusted class B
4 capital gains, and

5 “(B) for its taxable year in which or with
6 which the taxable year of such company ends,
7 its pro rata share of the undistributed portion of the
8 sum of the adjusted class A and adjusted class B
9 capital gains.

10 For purposes of this subsection the adjusted class A and
11 adjusted class B capital gains shall be determined as pro-
12 vided in subsection ~~(a)(1)(B)~~.”

13 ~~(F)~~ Subsection ~~(i)~~ of section 1247 is amended
14 to read as follows:

15 ~~“(i) LOSS ON SALE OR EXCHANGE OF CERTAIN~~
16 ~~STOCK.—~~

17 ~~“(1) SHAREHOLDERS OTHER THAN CORPORA-~~
18 ~~TIONS.—~~If, under this section, any qualified shareholder
19 other than a corporation treats any amount designated
20 under subsection ~~(a)(1)(B)~~ with respect to a share
21 of stock as—

22 ~~“(A)~~ class B capital gain and such share is
23 held by the taxpayer for 6 months or less, then
24 any loss on the sale or exchange of such share shall,
25 to the extent of the amount treated as class B capital

1 gain, be treated as a loss from the sale or exchange
2 of a capital asset held for more than 6 months but
3 not more than 2 years;

4 “(B) class A capital gain and such share is
5 held by the taxpayer for 2 years or less, then any
6 loss on the sale or exchange of such share shall, to
7 the extent of the amount treated as class A capital
8 gain, be treated as a loss from the sale or exchange
9 of a capital asset held for more than 2 years; or

10 “(C) both class A and class B capital gains
11 and such share is held by the taxpayer for 6 months
12 or less and there is a loss on the sale or exchange of
13 such stock which is less than the sum of the amount
14 so designated, then an amount of such loss shall be
15 treated as a loss from the sale or exchange of a
16 capital asset held for more than 6 months but not
17 more than 2 years which bears the same relation
18 to such loss as the class B capital gain so designated
19 bears to the sum of such class B and the class A
20 capital gains so designated; and the remainder of
21 such loss shall be treated as a loss from the sale or
22 exchange of a capital asset held for more than
23 2 years.

24 “(2) CORPORATE SHAREHOLDERS.—If, under this
25 section, any qualified shareholder which is a corpora-

tion treats any amount designated under subsection (a) (1) (B) with respect to a share of stock as long-term capital gain and such share is held by the taxpayer for 6 months or less; then any loss on the sale or exchange of such share shall, to the extent of the amount treated as long-term capital gain, be treated as a loss from the sale or exchange of a capital asset held for more than 6 months."

(12) Section 1248(b) (relating to gain from certain sales or exchanges of stock in certain foreign corporations) is amended by striking out "6 months," each place it appears and inserting in lieu thereof "6 months but not more than 2 years or held for more than 2 years, as the case may be,".

(13) Section 1375(a) (relating to special rules applicable to capital gains of electing small business corporations) is amended to read as follows:

"(a) CAPITAL GAINS.—

"(1) TREATMENT IN HANDS OF SHAREHOLDERS.—

The amount includible in the gross income of a shareholder as dividends (including amounts treated as dividends under section 1373(b)) from an electing small business corporation during any taxable year of the corporation, to the extent such amount is a distribution of property out of earnings and profits of the taxable year

1 as specified in section ~~316(a)-(2)~~, shall be treated (i)
 2 as class A capital gain to the extent of the shareholder's
 3 pro rata share of the adjusted class A capital gain
 4 (computed by the corporation as though it were a
 5 taxpayer other than a corporation except that section
 6 ~~1212(b)-(2)~~ shall not apply) for such taxable year,
 7 and (ii) as class B capital gain to the extent of the
 8 shareholder's pro rata share of the adjusted class B
 9 capital gain (computed by the corporation as though
 10 it were a taxpayer other than a corporation except
 11 that section ~~1212(b)-(2)~~ shall not apply) for such
 12 taxable year. For purposes of this paragraph, the
 13 adjusted class A capital gain or the adjusted class B
 14 capital gain shall be deemed not to exceed an amount
 15 equal to that portion of the corporation's taxable income
 16 (computed as provided in section ~~1373(d)~~) for
 17 the taxable year which bears the same ratio to such
 18 taxable income as such adjusted class A capital gain or
 19 such adjusted class B capital gain (determined without
 20 regard to the provisions of this sentence) bears to the
 21 sum of such adjusted class A and adjusted class B capital
 22 gains.

23 “(2) DETERMINATION OF SHAREHOLDER'S PRO
 24 RATA SHARE.—A shareholder's pro rata share of the
 25 adjusted class A or adjusted class B capital gain (com-

puted as provided in paragraph (1)) for any taxable year shall be an amount which bears the same ratio to such adjusted class A capital gain or such adjusted class B capital gain as the amount of dividends described in paragraph (1) includible in the shareholder's gross income bears to the entire amount of dividends described in paragraph (1) includible in the gross income of all shareholders."

(d) ~~EFFECTIVE DATE.~~

(1) ~~GENERAL RULE.~~—Except as otherwise specifically provided, and except as provided by paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1963.

(2) ~~TRANSITION RULES.~~

(A) ~~DISTRIBUTIONS OF CAPITAL GAINS.~~

(i) If a taxpayer, other than a corporation, is required to include as capital gain in his gross income for a taxable year beginning after December 31, 1963, an amount attributable to sales or exchanges of capital assets held for more than 6 months and such gain was realized in a taxable year beginning before January 1, 1964, by a person described in clause (iii), such amount shall be treated by such taxpayer as class B capital gain.

1 (ii) If a taxpayer, other than a corpora-
 2 tion, is required to include as capital gain in
 3 his gross income for a taxable year beginning
 4 before January 1, 1964, an amount attributable
 5 to sales or exchanges of capital assets held for
 6 more than 6 months and such gain was realized
 7 in a taxable year beginning after December
 8 31, 1963, by a person described in clause (iii),
 9 such amount shall be treated by such taxpayer
 10 as long-term capital gain.

11 (iii) This subparagraph applies in respect
 12 of a regulated investment company or a real
 13 estate investment trust to which subchapter M
 14 of chapter 1 of the Internal Revenue Code of
 15 1954 applies, a foreign investment company to
 16 which section 1247 of such Code applies, an
 17 electing small business corporation to which
 18 subchapter S of chapter 1 of such Code applies,
 19 a common trust fund to which section 584
 20 applies, a partnership, an estate, and a trust.

21 (B) LOSS ON SALE OR EXCHANGE OF CER-
 22 TAIN STOCK.—If a shareholder (or a holder of a
 23 beneficial interest), other than a corporation, in a
 24 regulated investment company, real estate invest-

ment trust, or foreign investment company is required for a taxable year beginning before January 1, 1964, under section 852(b)(3) (B) or (D), section 857(b)(3)(B), or section 1247(d), to treat an amount with respect to a share (or beneficial interest), as a long-term capital gain, and such share (or beneficial interest) is held by the taxpayer for less than 31 days (6 months or less in case of a shareholder of a foreign investment company), then a loss on the sale or exchange of such share in a taxable year of such shareholder beginning after December 31, 1963, shall to the extent of such long-term capital gain, be treated as loss from the sale or exchange of a capital asset held for more than 6 months but not more than 2 years.

(C) REGULATORY AUTHORITY.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this subsection.

(D) MEANING OF TERMS.—Terms used in this subsection shall have the same meaning as when used in chapter 1 of the Internal Revenue Code of 1954.

1 **SEC. ~~220~~ 233. GAIN FROM DISPOSITIONS OF CERTAIN DE-**
 2 **PRECIABLE REALTY.**

3 (a) GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-
 4 CIABLE REALTY.—Part IV of subchapter P of chapter 1
 5 (relating to special rules for determining capital gains and
 6 losses) is amended by adding at the end thereof the follow-
 7 ing new section:

8 **“SEC. 1250. GAIN FROM DISPOSITIONS OF CERTAIN DEPRE-**
 9 **CIABLE REALTY.**

10 **“(a) GENERAL RULE.—**

11 **“(1) ORDINARY INCOME.—**Except as otherwise
 12 provided in this section, if section 1250 property is dis-
 13 posed of after December 31, 1963, the applicable per-
 14 centage of the lower of—

15 **“(A) the additional depreciation (as defined in**
 16 **subsection (b) (1)) in respect of the property, or**

17 **“(B) the excess of—**

18 **“(i) the amount realized (in the case of a**
 19 **sale, exchange, or involuntary conversion), or**
 20 **the fair market value of such property (in the**
 21 **case of any other disposition), over**

22 **“(ii) the adjusted basis of such property,**
 23 **shall be treated as gain from the sale or exchange of**
 24 **property which is neither a capital asset nor property**
 25 **described in section 1231. Such gain shall be recog-**

1 nized notwithstanding any other provision of this sub-
2 title.

3 “(2) APPLICABLE PERCENTAGE.—For purposes of
4 paragraph (1), the term ‘applicable percentage’
5 means 100 percent minus one percentage point for each
6 full month the property was held after the date on which
7 the property was held 20 full months.

8 “(b) ADDITIONAL DEPRECIATION DEFINED.—For
9 purposes of this section—

10 “(1) IN GENERAL.—The term ‘additional deprecia-
11 tion’ means, in the case of any property, the depreciation
12 adjustments in respect of such property; except that, in
13 the case of property held more than one year, it means
14 such adjustments only to the extent that they exceed the
15 amount of the depreciation adjustments which would
16 have resulted if such adjustments had been determined
17 for each taxable year under the straight line method of
18 adjustment. For purposes of the preceding sentence, if a
19 useful life (or salvage value) was used in determining
20 the amount allowed as a deduction for any taxable year,
21 such life (or value) shall be used in determining the
22 depreciation adjustments which would have resulted for
23 such year under the straight line method.

24 “(2) PROPERTY HELD BY LESSEE.—In the case

1 of a lessee, in determining the depreciation adjustments
2 which would have resulted in respect of any building
3 erected (or other improvement made) on the leased
4 property, or in respect of any cost of acquiring the lease,
5 the lease period shall be treated as including all renewal
6 periods. For purposes of the preceding sentence—

7 “(A) the term ‘renewal period’ means any
8 period for which the lease may be renewed, ex-
9 tended, or continued pursuant to an option exercis-
10 able by the lessee, but

11 “(B) the inclusion of renewal periods shall
12 not extend the period taken into account by more
13 than $\frac{2}{3}$ of the period on the basis of which the
14 depreciation adjustments were allowed.

15 “(3) DEPRECIATION ADJUSTMENTS.—The term
16 ‘depreciation adjustments’ means, in respect of any
17 property, all adjustments attributable to periods after
18 December 31, 1963, reflected in the adjusted basis of
19 such property on account of deductions (whether in
20 respect of the same or other property) allowed or
21 allowable to the taxpayer or to any other person for
22 exhaustion, wear and tear, obsolescence, or amortization
23 (other than amortization under section 168). For pur-
24 poses of the preceding sentence, if the taxpayer can
25 establish by adequate records or other sufficient evidence

1 that the amount allowed as a deduction for any period
2 was less than the amount allowable, the amount taken
3 into account for such period shall be the amount allowed.

4 “(c) SECTION 1250 PROPERTY.—For purposes of this
5 section, the term ‘section 1250 property’ means any real
6 property (other than section 1245 property, as defined in
7 section 1245 (a) (3)) which is or has been property of a
8 character subject to the allowance for depreciation provided
9 in section 167.

10 “(d) EXCEPTIONS AND LIMITATIONS.—

11 “(1) GIFTS.—Subsection (a) shall not apply to a
12 disposition by gift.

13 “(2) TRANSFERS AT DEATH.—Except as provided
14 in section 691 (relating to income in respect of a de-
15 cedent), subsection (a) shall not apply to a transfer at
16 death.

17 “(3) CERTAIN TAX-FREE TRANSACTIONS.—If the
18 basis of property in the hands of a transferee is deter-
19 mined by reference to its basis in the hands of the trans-
20 feror by reason of the application of section 332, 351,
21 361, 371 (a), 374 (a), 721, or 731, then the amount
22 of gain taken into account by the transferor under sub-
23 section (a) (1) shall not exceed the amount of gain
24 recognized to the transferor on the transfer of such prop-
25 erty (determined without regard to this section).

1 This paragraph shall not apply to a disposition to an
 2 organization (other than a cooperative described in sec-
 3 tion 521) which is exempt from the tax imposed by this
 4 chapter.

5 “(4) LIKE KIND EXCHANGES; INVOLUNTARY
 6 CONVERSIONS, ETC.—

7 “(A) RECOGNITION LIMIT.—If property is
 8 disposed of and gain (determined without regard
 9 to this section) is not recognized in whole or in
 10 part under section 1031 or 1033, then the amount
 11 of gain taken into account by the transferor under
 12 subsection (a) (1) shall not exceed the greater of
 13 the following:

14 “(i) the amount of gain recognized on the
 15 disposition (determined without regard to this
 16 section), increased as provided in subparagraph
 17 (B), or

18 “(ii) the amount determined under sub-
 19 paragraph (C).

20 “(B) INCREASE FOR CERTAIN STOCK.—With
 21 respect to any transaction, the increase provided
 22 by this subparagraph is the amount equal to the
 23 fair market value of any stock purchased in a cor-
 24 poration which (but for this paragraph) would

1 result in nonrecognition of gain under section
2 1033 (a) (3) (A).

3 “(C) ADJUSTMENT WHERE INSUFFICIENT
4 SECTION 1250 PROPERTY IS ACQUIRED.—With re-
5 spect to any transaction, the amount determined
6 under this subparagraph shall be the excess of—

7 “(i) the amount of gain which would (but
8 for this paragraph) be taken into account un-
9 der subsection (a) (1), over

10 “(ii) the fair market value (or cost in
11 the case of a transaction described in section
12 1033 (a) (3)) of the section 1250 property
13 acquired in the transaction.

14 “(D) BASIS OF PROPERTY ACQUIRED.—In the
15 case of property purchased by the taxpayer in a
16 transaction described in section 1033 (a) (3), in
17 applying the last sentence of section 1033 (c), such
18 sentence shall be applied—

19 “(i) first solely to section 1250 properties
20 and to the amount of gain not taken into ac-
21 count under subsection (a) (1) by reason of
22 this paragraph, and

23 “(ii) then to all purchased properties
24 to which such sentence applies and to the re-

1 maining gain not recognized on the transaction
 2 as if the cost of the section 1250 properties were
 3 the basis of such properties computed under
 4 clause (i).

5 In the case of property acquired in any other trans-
 6 action to which this paragraph applies, rules con-
 7 sistent with the preceding sentence shall be applied
 8 under regulations prescribed by the Secretary or his
 9 delegate.

10 “(E) ADDITIONAL DEPRECIATION WITH RE-
 11 SPECT TO PROPERTY DISPOSED OF.—In the case of
 12 any transaction described in section 1031 or 1033,
 13 the additional depreciation in respect of the section
 14 1250 property acquired which is attributable to the
 15 section 1250 property disposed of shall be an amount
 16 equal to the amount of the gain which was not
 17 taken into account under subsection (a) (1) by
 18 reason of the application of this paragraph.

19 “(5) SECTION 1071 AND 1081 TRANSACTIONS.—
 20 Under regulations prescribed by the Secretary or his
 21 delegate, rules consistent with paragraphs (3) and (4)
 22 of this subsection and with subsections (e) and (f)
 23 shall apply in the case of transactions described in sec-
 24 tion 1071 (relating to gain from sale or exchange to

1 effectuate policies of FCC) or section 1081 (relating to
2 exchanges in obedience to SEC orders).

3 “(6) PROPERTY DISTRIBUTED BY A PARTNERSHIP
4 TO A PARTNER.—

5 “(A) IN GENERAL.—For purposes of this sec-
6 tion, the basis of section 1250 property distributed
7 by a partnership to a partner shall be deemed to be
8 determined by reference to the adjusted basis of
9 such property to the partnership.

10 “(B) ADDITIONAL DEPRECIATION.—In respect
11 of any property described in subparagraph (A), the
12 additional depreciation attributable to periods before
13 the distribution by the partnership shall be—

14 “(i) the amount of the gain to which sub-
15 section (a) would have applied if such property
16 had been sold by the partnership immediately
17 before the distribution at its fair market value
18 at such time and the applicable percentage for
19 the property had been 100 percent, reduced by

20 “(ii) if section 751 (b) applied to any part
21 of such gain, the amount of such gain to which
22 section 751 (b) would have applied if the ap-
23 plicable percentage for the property had been
24 100 percent.

1 “(7) DISPOSITION OF PRINCIPAL RESIDENCE.—

2 Subsection (a) shall not apply to a disposition of—

3 “(A) property to the extent used by the tax-
4 payer as his principal residence (within the mean-
5 ing of section 1034, relating to sale or exchange
6 of residence), and

7 “(B) property in respect of which the taxpayer
8 meets the age and ownership requirements of section
9 121 (relating to gains from sale or exchange of
10 residence of individual who has attained the age of
11 65) but only to the extent that he meets the use
12 requirements of such section in respect of such
13 property.

14 “(e) HOLDING PERIOD.—For purposes of determining
15 the applicable percentage under this section, the provisions
16 of section 1223 shall not apply, and the holding period of
17 section 1250 property shall be determined under the follow-
18 ing rules:

19 “(1) BEGINNING OF HOLDING PERIOD.—The hold-
20 ing period of section 1250 property shall be deemed to
21 begin—

22 “(A) in the case of property acquired by the
23 taxpayer, on the day after the date of acquisition,
24 or

25 “(B) in the case of property constructed, re-

constructed, or erected by the taxpayer, on the first day of the month during which the property is placed in service.

“(2) PROPERTY WITH TRANSFERRED BASIS.—If the basis of property acquired in a transaction described in paragraph (1), (2), (3), or (5) of subsection (d) is determined by reference to its basis in the hands of the transferor, then the holding period of the property in the hands of the transferee shall include the holding period of the property in the hands of the transferor.

“(3) PRINCIPAL RESIDENCE.—If the basis of property acquired in a transaction described in paragraph (7) of subsection (d) is determined by reference to the basis in the hands of the taxpayer of other property, then the holding period of the property acquired shall include the holding period of such other property.

“(f) SPECIAL RULES FOR PROPERTY WHICH IS SUBSTANTIALY IMPROVED.—

“(1) AMOUNT TREATED AS ORDINARY INCOME.—If, in the case of a disposition of section 1250 property, the property is treated as consisting of more than one element by reason of paragraph (3), then the amount taken into account under subsection (a) (1) in respect of such section 1250 property as gain from the sale or exchange of property which is neither a

1 capital asset nor property described in section 1231 shall
 2 be the sum of the amounts determined under paragraph
 3 (2).

4 “(2) ORDINARY INCOME ATTRIBUTABLE TO AN
 5 ELEMENT.—For purposes of paragraph (1), the
 6 amount taken into account for any element shall be the
 7 amount determined by multiplying—

8 “(A) the amount which bears the same ratio
 9 to the lower of the amounts specified in subpara-
 10 graph (A) or (B) of subsection (a) (1) for the
 11 section 1250 property as the additional depreciation
 12 for such element bears to the sum of the additional
 13 depreciation for all elements, by

14 “(B) the applicable percentage for such ele-
 15 ment.

16 For purposes of this paragraph, determinations with
 17 respect to any element shall be made as if it were a
 18 separate property.

19 “(3) PROPERTY CONSISTING OF MORE THAN ONE
 20 ELEMENT.—In applying this subsection in the case of
 21 any section 1250 property, there shall be treated as a
 22 separate element—

23 “(A) each separate improvement,

24 “(B) if, before completion of section 1250

property, units thereof (as distinguished from improvements) were placed in service, each such unit of section 1250 property, and

“(C) the remaining property which is not taken into account under subparagraphs (A) and (B).

“(4) PROPERTY WHICH IS SUBSTANTIALLY IMPROVED.—For purposes of this subsection—

“(A) IN GENERAL.—The term ‘separate improvement’ means each improvement added during the 36-month period ending on the last day of any taxable year to the capital account for the property, but only if the sum of the amounts added to such account during such period exceeds the greatest of—

“(i) 25 percent of the adjusted basis of the property,

“(ii) 10 percent of the adjusted basis of the property, determined without regard to the adjustments provided in paragraphs (2) and (3) of section 1016 (a), or

“(iii) \$5,000.

For purposes of clauses (i) and (ii), the adjusted basis of the property shall be determined as of the

1 beginning of the first day of such 36-month period,
 2 or of the holding period of the property (within the
 3 meaning of subsection (e)), whichever is the later.

4 “(B) EXCEPTION.—Improvements in any tax-
 5 able year shall be taken into account for purposes of
 6 subparagraph (A) only if the sum of the amounts
 7 added to the capital account for the property for
 8 such taxable year exceeds the greater of—

9 “(i) \$2,000, or

10 “(ii) one percent of the adjusted basis re-
 11 ferred to in subparagraph (A) (ii) , determined,
 12 however, as of the beginning of such taxable
 13 year.

14 For purposes of this section, if the amount added to
 15 the capital account for any separate improvement
 16 does not exceed the greater of clause (i) or (ii) ,
 17 such improvement shall be treated as placed in
 18 service on the first day, of a calendar month, which
 19 is closest to the middle of the taxable year.

20 “(C) IMPROVEMENT.—The term ‘improve-
 21 ment’ means, in the case of any section 1250 prop-
 22 erty, any addition to capital account for such prop-
 23 erty after the initial acquisition or after completion
 24 of the property.

25 “(g) ADJUSTMENTS TO BASIS.—The Secretary or his

1 delegate shall prescribe such regulations as he may deem nec-
 2 essary to provide for adjustments to the basis of property to
 3 reflect gain recognized under subsection (a).

4 “(h) APPLICATION OF SECTION.—This section shall
 5 apply notwithstanding any other provision of this subtitle.”

6 (b) TECHNICAL AMENDMENTS.—

7 (1) SPECIAL RULE FOR CHARITABLE CONTRIBU-
 8 TIONS.—

9 (A) The heading of section 170 (e) (relating
 10 to special rule for charitable contributions of section
 11 1245 property) is amended by striking out “SEC-
 12 TION 1245 PROPERTY” and inserting in lieu thereof
 13 “CERTAIN PROPERTY”.

14 (B) The text of such section 170 (e) is
 15 amended by striking out “section 1245 (a)” and in-
 16 serting in lieu thereof “section 1245 (a) or
 17 1250 (a)”.

18 (2) CORPORATE DISTRIBUTIONS OF PROPERTY.—
 19 Subsections (b) and (d) of section 301 (relating to
 20 amount distributed) are each amended by striking out
 21 “under section 1245 (a)” and inserting in lieu thereof
 22 “under section 1245 (a) or 1250 (a)”.

23 (3) EFFECT ON EARNINGS AND PROFITS.—Para-
 24 graph (3) of section 312 (c) (relating to adjustments
 25 of earnings and profits) is amended by striking out “or

1 under section 1245 (a) ” and inserting in lieu thereof
 2 “or under section 1245 (a) or 1250 (a) ”.

3 (4) COLLAPSIBLE CORPORATIONS.—Paragraph
 4 (12) of section 341 (e) (relating to collapsible cor-
 5 porations) is amended by striking out “section 1245
 6 (a) ” and inserting in lieu thereof “sections 1245 (a)
 7 and 1250 (a) ”.

8 (5) INSTALLMENT OBLIGATIONS IN CERTAIN
 9 LIQUIDATIONS.—Subparagraphs (A) and (B) of section
 10 453 (d) (4) (relating to distribution of installment obli-
 11 gations in certain corporate liquidations) are each
 12 amended by striking out “section 1245 (a) ” and insert-
 13 ing in lieu thereof “section 1245 (a) or 1250 (a) ”.

14 (6) SPECIAL RULE FOR PARTNERSHIPS.—Section
 15 751 (c) (relating to definition of “unrealized receiva-
 16 bles” for purposes of subchapter K) is amended by
 17 striking out “(as defined in section 1245 (a) (3)) ” and
 18 inserting in lieu thereof “(as defined in section 1245
 19 (a) (3)) and section 1250 property (as defined in sec-
 20 tion 1250 (c)) ” and by striking out “to which section
 21 1245 (a) ” and inserting in lieu thereof “to which section
 22 1245 (a) or 1250 (a) ”.

23 (7) The table of sections for part IV of subchapter

1 P of chapter 1 is amended by adding at the end thereof
 2 the following:

“Sec. 1250. Gain from dispositions of certain depreciable
 realty.”

3 (c) EFFECTIVE DATE.—The amendments made by this
 4 section shall apply to dispositions after December 31, 1963,
 5 in taxable years ending after such date.

6 SEC. ~~224~~ 234. AVERAGING.

7 (a) GENERAL RULE.—Part I of subchapter Q of chap-
 8 ter 1 is amended to read as follows:

9 **“PART I—INCOME AVERAGING**

“Sec. 1301. Limitation on tax.

“Sec. 1302. Definition of averagable income; related defi-
 nitions.

“Sec. 1303. Eligible individuals.

“Sec. 1304. Special rules.

“Sec. 1305. Regulations.

10 **“SEC. 1301. LIMITATION ON TAX.**

11 “If an eligible individual has averagable income for the
 12 computation year, and if the amount of such income exceeds
 13 \$3,000, then the tax imposed by section 1 for the computa-
 14 tion year which is attributable to averagable income shall
 15 be 5 times the increase in tax under such section which would
 16 result from adding 20 percent of such income to the sum of—

17 “(1) $133\frac{1}{3}$ percent of average base period income,

18 and

19 “(2) the amount (if any) of the average base
 20 period capital gain net income.

1 **"SEC. 1302. DEFINITION OF AVERAGABLE INCOME; RE-**
 2 **LATED DEFINITIONS.**

3 **"(a) AVERAGABLE INCOME.—**For purposes of this
 4 part—

5 **"(1) IN GENERAL.—**The term 'averagable income'
 6 means the amount (if any) by which adjusted tax-
 7 able income exceeds $133\frac{1}{3}$ percent of average base period
 8 income.

9 **"(2) ADJUSTMENT IN CERTAIN CASES FOR CAPI-**
 10 **TAL GAINS.—**If—

11 **"(A)** the average base period capital gain net
 12 income, exceeds

13 **"(B)** the capital gain net income for the com-
 14 putation year,

15 then the term 'averagable income' means the amount de-
 16 termined under paragraph (1), reduced by an amount
 17 equal to such excess.

18 **"(b) ADJUSTED TAXABLE INCOME.—**For purposes of
 19 this part, the term 'adjusted taxable income' means the tax-
 20 able income for the computation year, decreased by the sum
 21 of the following amounts:

22 **"(1) CAPITAL GAIN NET INCOME FOR THE COM-**
 23 **PUTATION YEAR.—**The amount (if any) of the capital
 24 gain net income for the computation year.

1 “(2) INCOME ATTRIBUTABLE TO GIFTS, BEQUESTS,
2 ETC.—

3 “(A) IN GENERAL.—The amount of net in-
4 come attributable to an interest in property where
5 such interest was received by the taxpayer as a gift,
6 bequest, devise, or inheritance during the computa-
7 tion year or any base period year. This para-
8 graph shall not apply to gifts, bequests, devises,
9 or inheritances between husband and wife if they
10 make a joint return, or if one of them makes a re-
11 turn as a surviving spouse (as defined in section
12 2 (b)), for the computation year.

13 “(B) AMOUNT OF NET INCOME.—Unless the
14 taxpayer otherwise establishes to the satisfaction of
15 the Secretary or his delegate, the amount of net
16 income for any taxable year attributable to an
17 interest described in subparagraph (A) shall be
18 deemed to be 6 percent of the fair market value of
19 such interest (as determined in accordance with
20 the provisions of chapter 11 or chapter 12, as the
21 case may be).

22 “(C) LIMITATION.—This paragraph shall ap-
23 ply only if the sum of the net incomes attributable

1 to interests described in subparagraph (A) exceeds
2 \$3,000.

3 “(D) NET INCOME.—For purposes of this
4 paragraph, the term ‘net income’ means, with re-
5 spect to any interest, the excess of—

6 “(i) items of gross income attributable to
7 such interest, over

8 “(ii) the deductions properly allocable to
9 or chargeable against such items.

10 For purposes of computing such net income, capital
11 gains and losses shall not be taken into account.

12 “(3) WAGERING INCOME.—The amount (if any)
13 by which the gains from wagering transactions for the
14 computation year exceed the losses from such trans-
15 actions.

16 “(4) CERTAIN AMOUNTS RECEIVED BY OWNER-
17 EMPLOYEES.—The amount (if any) to which section
18 72 (m) (5) (relating to penalties applicable to certain
19 amounts received by owner-employees) applies.

20 “(c) AVERAGE BASE PERIOD INCOME.—For purposes
21 of this part—

22 “(1) IN GENERAL.—The term ‘average base period
23 income’ means one-fourth of the sum of the base period
24 incomes for the base period.

25 “(2) BASE PERIOD INCOME.—The base period in-

1 come for any taxable year is the taxable income for such
2 year first increased and then decreased (but not below
3 zero) in the following order:

4 “(A) Taxable income shall be increased by an
5 amount equal to the excess of—

6 “(i) the amount excluded from gross in-
7 come under section 911 (relating to earned in-
8 come from sources without the United States)
9 and subpart D of part III of subchapter N (sec.
10 931 and following, relating to income from
11 sources within possessions of the United States),
12 over

13 “(ii) the deductions which would have
14 been properly allocable to or chargeable against
15 such amount but for the exclusion of such
16 amount from gross income.

17 “(B) Taxable income shall be decreased by
18 the capital gain net income.

19 “(C) If the decrease provided by paragraph
20 (2) of subsection (b) applies to the computation
21 year, the taxable income shall be decreased under
22 the rules of such paragraph (2) (other than the
23 limitation contained in subparagraph (C) thereof).

24 “(d) CAPITAL GAIN NET INCOME, ETC.—For pur-
25 poses of this part—

1 “(1) CAPITAL GAIN NET INCOME.—The term
2 ‘capital gain net income’ means, for any taxable year
3 beginning after December 31, 1963, the amount (if
4 any) by which—

5 “(A) the sum of the adjusted class A capital
6 gain and the adjusted class B capital gain, exceeds

7 “(B) the deduction allowable under section
8 1202(a).

9 The term ‘capital gain net income’ means, for any
10 taxable year beginning before January 1, 1964, means
11 the amount equal to 50 percent of the excess of the net
12 long-term capital gain over the net short-term capital
13 loss.

14 “(2) AVERAGE BASE PERIOD CAPITAL GAIN NET
15 INCOME.—The term ‘average base period capital gain
16 net income’ means one-fourth of the sum of the capital
17 gain net incomes for the base period. For purposes of
18 the preceding sentence, the capital gain net income for
19 any base period year shall not exceed the base period
20 income for such year computed without regard to sub-
21 section (c) (2) (B).

22 “(e) OTHER RELATED DEFINITIONS.—For purposes
23 of this part—

24 “(1) COMPUTATION YEAR.—The term ‘computa-

tion year' means the taxable year for which the taxpayer chooses the benefits of this part.

"(2) **BASE PERIOD.**—The term 'base period' means the 4 taxable years immediately preceding the computation year.

"(3) **BASE PERIOD YEAR.**—The term 'base period year' means any of the 4 taxable years immediately preceding the computation year.

"(4) **JOINT RETURN.**—The term 'joint return' means the return of a husband and wife made under section 6013.

"SEC. 1303. ELIGIBLE INDIVIDUALS.

"(a) **GENERAL RULE.**—Except as otherwise provided in this section, for purposes of this part the term 'eligible individual' means any individual who is a citizen or resident of the United States throughout the computation year.

"(b) **NONRESIDENT ALIEN INDIVIDUALS.**—For purposes of this part, an individual shall not be an eligible individual for the computation year if, at any time during such year or the base period, such individual was a nonresident alien.

"(c) **INDIVIDUALS RECEIVING SUPPORT FROM OTHERS.**—

"(1) **IN GENERAL.**—For purposes of this part, an

1 individual shall not be an eligible individual for the com-
2 putation year if, for any base period year, such individ-
3 ual (and his spouse) furnished less than one-half of his
4 support.

5 “(2) EXCEPTIONS.—Paragraph (1) shall not ap-
6 ply to any computation year if—

7 “(A) such year ends after the individual at-
8 tained age 25 and, during at least 4 of his taxable
9 years beginning after he attained age 21 and end-
10 ing with his computation year, he was not a full-
11 time student,

12 “(B) more than one-half of the individual’s
13 adjusted taxable income for the computation year
14 is attributable to work performed by him in sub-
15 stantial part during 2 or more of the base period
16 years, or

17 “(C) the individual makes a joint return for
18 the computation year and not more than 25 per-
19 cent of the aggregate adjusted gross income of such
20 individual and his spouse for the computation year
21 is attributable to such individual.

22 In applying subparagraph (C), amounts which consti-
23 tute earned income (within the meaning of section 911
24 (b)) and are community income under community

property laws applicable to such income shall be taken into account as if such amounts did not constitute community income.

“(d) STUDENT DEFINED.—For purposes of this section, the term ‘student’ means, with respect to a taxable year, an individual who during each of 5 calendar months during such taxable year—

“(1) was a full-time student at an educational institution (as defined in section 151 (e) (4)) ; or

“(2) was pursuing a full-time course of institutional on-farm training under the supervision of an accredited agent of an educational institution (as defined in section 151 (e) (4)) or of a State or political subdivision of a State.

“SEC. 1304. SPECIAL RULES.

“(a) TAXPAYER MUST CHOOSE BENEFITS.—This part shall apply to the taxable year only if the taxpayer chooses to have the benefits of this part for such taxable year. Such choice may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for the taxable year.

“(b) CERTAIN PROVISIONS INAPPLICABLE.—If the taxpayer chooses the benefits of this part for the taxable

1 year, the following provisions shall not apply to him for
2 such year:

3 “(1) section 3 (relating to optional tax if adjusted
4 gross income is less than \$5,000),

5 “(2) section 72 (n) (2) (relating to limitation of
6 tax in case of certain distributions with respect to con-
7 tributions by self-employed individuals),

8 “(3) section 911 (relating to earned income from
9 sources without the United States), and

10 “(4) subpart D of part III of subchapter N (sec.
11 931 and following, relating to income from sources
12 within possessions of the United States).

13 “(c) FAILURE OF CERTAIN MARRIED INDIVIDUALS
14 TO MAKE JOINT RETURN, ETC.—

15 “(1) APPLICATION OF SUBSECTION.—Paragraphs
16 (2), (3), and (4) of this subsection shall apply in the
17 case of any individual who was married for any base
18 period year or the computation year; except that—

19 “(A) such paragraphs shall not apply in re-
20 spect of a base period year if—

21 “(i) such individual and his spouse make
22 a joint return, or such individual makes a re-
23 turn as a surviving spouse (as defined in section
24 2 (b)), for the computation year, and

25 “(ii) such individual was not married to

1 any other spouse for such base period year, and

2 “(B) paragraph (4) shall not apply in respect
3 of the computation year if the individual and his
4 spouse make a joint return for such year.

5 “(2) MINIMUM BASE PERIOD INCOME.—For pur-
6 poses of this part, the base period income of an individual
7 for any base period year shall not be less than 50 percent
8 of the base period income which would result from com-
9 bining his income and deductions for such year—

10 “(A) with the income and deductions for such
11 year of the individual who is his spouse for the
12 computation year, or

13 “(B) if greater, with the income and deduc-
14 tions for such year of the individual who was his
15 spouse for such base period year.

16 “(3) MINIMUM BASE PERIOD CAPITAL GAIN NET
17 INCOME.—For purposes of this part, the capital gain
18 net income of any individual for any base period year
19 shall not be less than 50 percent of the capital gain net
20 income which would result from combining his capital
21 gain net income for such year (determined without re-
22 gard to this paragraph) with the capital gain net income
23 for such year (similarly determined) of the individual
24 with whom he is required by paragraph (2) to combine
25 his income and deductions for such year.

1 “(4) COMMUNITY INCOME ATTRIBUTABLE TO
2 SERVICES.—In the case of amounts which constitute
3 earned income (within the meaning of section 911 (b))
4 and are community income under community property
5 laws applicable to such income—

6 “(A) the amount taken into account for any
7 base period year for purposes of determining base
8 period income shall not be less than the amount
9 which would be taken into account if such amounts
10 did not constitute community income, and

11 “(B) the amount taken into account for pur-
12 poses of determining adjusted taxable income for
13 the computation year shall not exceed the amount
14 which would be taken into account if such amounts
15 did not constitute community income.

16 “(5) MARITAL STATUS.—For purposes of this
17 subsection, section 143 shall apply in determining
18 whether an individual is married for any taxable year.

19 “(d) DOLLAR LIMITATIONS IN CASE OF JOINT RE-
20 TURNS.—In the case of a joint return, the \$3,000 figure con-
21 tained in section 1301 shall be applied to the aggregate
22 averagable income, and the \$3,000 figure contained in sec-
23 tion 1302 (b) (2) (C) shall be applied to the aggregate net
24 incomes.

1 “(e) SPECIAL RULES WHERE THERE ARE CAPITAL
2 GAINS.—

3 “(1) TREATMENT OF CAPITAL GAINS IN COMPU-
4 TATION YEAR.—In the case of any taxpayer who has
5 capital gain net income for the computation year, the
6 tax imposed by section 1 for the computation year
7 which is attributable to the amount of such net income
8 shall be computed—

9 “(A) by adding so much of the amount thereof
10 as does not exceed average base period capital
11 gain net income above $133\frac{1}{3}$ percent of average base
12 period income, and

13 “(B) by adding the remainder (if any) of
14 such net income above the 20 percent of the aver-
15 agable income as taken into account for purposes
16 of computing the tax imposed by section 1 (and
17 above the amounts (if any) referred to in subsec-
18 tion (f) (1)).

19 “(2) COMPUTATION OF ALTERNATIVE TAX.—In
20 the case of any taxpayer who has capital gain net in-
21 come for the computation year, section 1201 (b) shall
22 be treated as imposing a tax equal to the tax imposed
23 by section 1, reduced by the amount (if any) by
24 which—

1 “(A) the tax imposed by section 1 and at-
 2 tributable to the capital gain net income for the
 3 computation year (determined under paragraph
 4 (1)), exceeds

5 ~~“(B) the sum of—~~

6 ~~“(i) 21 percent of the adjusted class A~~
 7 ~~capital gain, and~~

8 ~~“(ii) 25 percent of the adjusted class B~~
 9 ~~capital gain.~~

10 “(B) an amount equal to 25 percent of the
 11 excess of the net long-term capital gain over the net
 12 short-term capital loss.

13 “(f) TREATMENT OF CERTAIN OTHER ITEMS.—

14 “(1) GIFT OR WAGERING INCOME.—The tax im-
 15 posed by section 1 for the computation year which is
 16 attributable to the amounts subtracted from taxable in-
 17 come under paragraphs (2) and (3) of section
 18 1302 (b) shall equal the increase in tax under section
 19 1 which results from adding such amounts above the 20
 20 percent of the averagable income as taken into account
 21 for purposes of computing the tax imposed thereon by
 22 section 1.

23 “(2) SECTION 72 (m) (5).—Section 72 (m) (5)

(relating to penalties applicable to certain amounts received by owner-employees) shall be applied as if this part had not been enacted.

“(3) OTHER ITEMS.—Except as otherwise provided in this part, the order and manner in which items of income shall be taken into account in computing the tax imposed by this chapter on the income of any eligible individual to whom section 1301 applies for any computation year shall be determined under regulations prescribed by the Secretary or his delegate.

“(g) SHORT TAXABLE YEARS.—In the case of any computation year or base period year which is a short taxable year, this part shall be applied in the manner provided in regulations prescribed by the Secretary or his delegate.

“SEC. 1305. REGULATIONS.

“The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this part.”

(b) REPEAL OF SECTION 72 (e) (3).—Section 72 (e) (3) (relating to limit on tax attributable to receipt of lump sum) is hereby repealed.

(c) AMENDMENT OF SECTION 144.—Section 144 (relating to election of standard deduction) is amended by add-

1 *ing after subsection (c) (as added by 112 (c)(2) of this*
 2 *Act) the following new subsection:*

3 “(d) *INDIVIDUALS ELECTING INCOME AVERAGING.—*
 4 *In the case of a taxpayer who chooses to have the benefits of*
 5 *part I of subchapter Q (relating to income averaging) for*
 6 *the taxable year—*

7 “(1) *subsection (a) shall not apply for such taxable*
 8 *year, and*

9 “(2) *the standard deduction shall be allowed if the*
 10 *taxpayer so elects in his return for such taxable year.*

11 *The Secretary or his delegate shall by regulations prescribe*
 12 *the manner of signifying such election in the return. If the*
 13 *taxpayer on making his return fails to signify, in the manner*
 14 *so prescribed, his election to take the standard deduction, such*
 15 *failure shall be considered his election not to take the standard*
 16 *deduction.”*

17 ~~(e)~~ (d) *STATUTE OF LIMITATIONS.—Section 6511*
 18 *(d) (2) (B) (relating to special period of limitation with*
 19 *respect to net operating loss carrybacks) is amended to read*
 20 *as follows:*

21 “(B) *APPLICABLE RULES.—*

22 “(i) *If the allowance of a credit or refund*
 23 *of an overpayment of tax attributable to a net*
 24 *operating loss carryback is otherwise prevented*
 25 *by the operation of any law or rule of law other*

1 than section 7122, relating to compromises,
2 such credit or refund may be allowed or made,
3 if claim therefor is filed within the period pro-
4 vided in subparagraph (A) of this paragraph.
5 If the allowance of an application, credit, or re-
6 fund of a decrease in tax determined under sec-
7 tion 6411 (b) is otherwise prevented by the
8 operation of any law or rule of law other than
9 section 7122, such application, credit, or refund
10 may be allowed or made if application for a ten-
11 tative carryback adjustment is made within the
12 period provided in section 6411 (a). In the
13 case of any such claim for credit or refund or
14 any such application for a tentative carryback
15 adjustment, the determination by any court, in-
16 cluding the Tax Court, in any proceeding in
17 which the decision of the court has become final,
18 shall be conclusive except with respect to the
19 net operating loss deduction, and the effect of
20 such deduction, to the extent that such deduc-
21 tion is affected by a carryback which was not
22 in issue in such proceeding.

23 “(ii) A claim for credit or refund for a
24 computation year (as defined in section 1302
25 (e) (1)) shall be determined to relate to an

1 overpayment attributable to a net operating loss
 2 carryback when such carryback relates to any
 3 base period year (as defined in section
 4 1302 (e) (3)).”

5 ~~(d)~~ (e) TECHNICAL AMENDMENTS.—The following
 6 provisions are amended by striking out “except that section
 7 72 (e) (3) shall not apply”:

8 (1) The first sentence of section 402 (a) (1) (re-
 9 lating to general rule for taxability of beneficiary of
 10 exempt trust).

11 (2) The second sentence of section 402 (b) (re-
 12 lating to taxability of beneficiary of non-exempt trust).

13 (3) The second sentence of section 402 (d) (re-
 14 lating to certain employees’ annuities).

15 (4) Section 403 (a) (1) (relating to the general
 16 rule for taxability of a beneficiary under a qualified
 17 annuity plan).

18 (5) The second sentence of section 403 (b) (1)
 19 (relating to general rule for taxability of beneficiary,
 20 etc.).

21 (6) The second sentence of section 403 (c) (re-
 22 lating to taxability of beneficiary under a nonqualified
 23 annuity).

24 ~~(e)~~ (f) CLERICAL AMENDMENTS.—

25 (1) Subsection (f) of section 4 (relating to cross

1 references to rules for optional tax) is amended by
 2 adding at the end thereof the following new paragraph:

“(3) For rule that optional tax is not to apply if individual chooses the benefits of income averaging, see section 1304(b).”

3 (2) Subsection (b) of section 5 (relating to cross
 4 references to special limitations on tax) is amended to
 5 read as follows:

6 “(b) SPECIAL LIMITATIONS ON TAX.—

“(1) For limitation on surtax attributable to sales of oil or gas properties, see section 632.

“(2) For limitation on tax in case of income of members of Armed Forces on death, see section 692.

“(3) For limitation on tax where an individual chooses the benefits of income averaging, see section 1301.

“(4) For computation of tax where taxpayer restores substantial amount held under claim of right, see section 1341.

“(5) For limitation on surtax attributable to claims against the United States involving acquisitions of property, see section 1347.”

7 (3) The table of parts for subchapter Q of chapter
 8 1 is amended by striking out

“Part I. Income attributable to several taxable years.”

9 and inserting in lieu thereof

“Part I. Income averaging.”

10 ~~(f)~~ (g) EFFECTIVE DATE.—

11 (1) GENERAL RULE.—Except as provided in para-
 12 graph (2), the amendments made by this section shall
 13 apply with respect to taxable years beginning after
 14 December 31, 1963.

J. 27-859—20

1 **(2) INCOME FROM AN EMPLOYMENT.**—If, in a
2 taxable year beginning after December 31, 1963, an in-
3 dividual or partnership receives or accrues compensa-
4 tion from an employment (as defined by section 1301
5 (b) of the Internal Revenue Code of 1954 as in effect
6 immediately before the enactment of this Act) and the
7 employment began before February 6, 1963, the tax
8 attributable to such compensation may, at the election of
9 the taxpayer, be computed under the provisions of sec-
10 tions 1301 and 1307 of such Code as in effect immedi-
11 ately before the enactment of this Act. If a taxpayer
12 so elects (at such time and in such manner as the Secre-
13 tary of the Treasury or his delegate by regulations pre-
14 scribes), he may not choose for such taxable year the
15 benefits provided by part I of subchapter Q of chapter 1
16 of such Code (relating to income averaging) as amended
17 by this Act *and (if he elects to have subsection (e) of*
18 *such section 1307 apply) section 170(b)(5) of such*
19 *Code as amended by this Act shall not apply to charita-*
20 *ble contributions paid in such taxable year.*

21 **SEC. 235. SMALL BUSINESS CORPORATIONS.**

22 **(a) OWNERSHIP OF CERTAIN STOCK DISREGARD-**
23 **ED.**—Section 1371 (relating to definition of small business
24 corporation) is amended by adding at the end thereof the
25 following new subsection:

1 “(d) *OWNERSHIP OF CERTAIN STOCK.*—For purposes
 2 of subsection (a), a corporation shall not be considered a
 3 member of an affiliated group at any time during any tax-
 4 able year by reason of the ownership of stock in another
 5 corporation if such other corporation—

6 “(1) has not begun business at any time on or after
 7 the date of its incorporation and before the close of such
 8 taxable year, and

9 “(2) does not have taxable income for the period
 10 included within such taxable year.”

11 (b) *CERTAIN DISTRIBUTIONS OF MONEY AFTER*
 12 *CLOSE OF TAXABLE YEAR.*—Section 1375 (relating to
 13 special rules applicable to distributions of electing small
 14 business corporations) is amended by adding at the end
 15 thereof the following new subsection:

16 “(e) *CERTAIN DISTRIBUTIONS AFTER CLOSE OF*
 17 *TAXABLE YEAR.*—

18 “(1) *IN GENERAL.*—For purposes of this chapter,
 19 if—

20 “(A) a corporation makes a distribution of
 21 money to its shareholders on or before the 15th day
 22 of the third month following the close of a taxable
 23 year with respect to which it was an electing small
 24 business corporation, and

25 “(B) such distribution is made pursuant to a

1 *resolution of the board of directors of the corpora-*
2 *tion, adopted before the close of such taxable year, to*
3 *distribute to its shareholders all or a part of the*
4 *proceeds of one or more sales of capital assets, or of*
5 *property described in section 1231(b), made dur-*
6 *ing such taxable year,*

7 *such distribution shall, at the election of the corporation,*
8 *be treated as a distribution of money made on the last day*
9 *of such taxable year.*

10 “(2) *SHAREHOLDERS.—An election under para-*
11 *graph (1) with respect to any distribution may be made*
12 *by a corporation only if each person who is a shareholder*
13 *on the day the distribution is received—*

14 “(A) *owns the same proportion of the stock*
15 *of the corporation on such day as he owned on the*
16 *last day of the taxable year of the corporation pre-*
17 *ceding the distribution, and*

18 “(B) *consents to such election at such time and*
19 *in such manner as the Secretary or his delegate*
20 *shall prescribe by regulations.*

21 “(3) *MANNER AND TIME OF ELECTION.—An elec-*
22 *tion under paragraph (1) shall be made in such manner*
23 *as the Secretary or his delegate shall prescribe by regu-*
24 *lations. Such election shall be made not later than the*
25 *time prescribed by law for filing the return for the taxable*

1 year during which the sale was made (including ex-
 2 tensions thereof) except that, with respect to any taxable
 3 year ending on or before the date of the enactment of
 4 the Revenue Act of 1964, such election shall be made
 5 within 120 days after such date.”

6 (c) *EFFECTIVE DATES.*—The amendment made by sub-
 7 section (a) shall apply with respect to taxable years of cor-
 8 porations beginning after December 31, 1962. The amend-
 9 ment made by subsection (b) shall apply with respect to
 10 taxable years of corporations beginning after December 31,
 11 1957.

12 **SEC. ~~222~~ 236. REPEAL OF ADDITIONAL 2-PERCENT TAX FOR**
 13 **CORPORATIONS FILING CONSOLIDATED RE-**
 14 **TURNS.**

15 (a) *REPEAL OF TAX.*—Subsection (a) of section 1503
 16 (relating to computation and payment of tax in case of con-
 17 solidated returns) is amended to read as follows:

18 “(a) *GENERAL RULE.*—In any case in which a con-
 19 solidated return is made or is required to be made, the tax
 20 shall be determined, computed, assessed, collected, and ad-
 21 justed in accordance with the regulations under section 1502
 22 prescribed before the last day prescribed by law for the filing
 23 of such return.”

24 (b) *TECHNICAL AND CONFORMING AMENDMENTS.*—

25 (1) Section 1503 is amended by striking out sub-

1 sections (b) and (c) and by relettering subsection (d)
2 as subsection (b).

3 (2) Paragraph (3) of section 1503 (b) (as re-
4 lettered by paragraph (1)) is amended to read as
5 follows:

6 “(3) SPECIAL RULES.—

7 “(A) For purposes of paragraph (2), a cor-
8 poration is a regulated public utility only if it
9 is a regulated public utility within the meaning of
10 subparagraph (A) (other than clauses (ii) and
11 (iii) thereof) or (D) of section 7701 (a) (33).
12 For purposes of the preceding sentence, the limita-
13 tion contained in the last two sentences of section
14 7701 (a) (33) shall be applied as if subparagraphs
15 (A) through (F), inclusive, of section 7701 (a)
16 (33) were limited to subparagraphs (A) (i) and
17 (D) thereof.

18 “(B) For purposes of paragraph (2), the
19 foreign countries referred to in this subparagraph
20 include only any country from which any public
21 utility referred to in the first sentence of paragraph
22 (2) derives the principal part of its income.

23 “(C) For purposes of this subsection, the term
24 ‘consolidated taxable income’ means the consolidated
25 taxable income computed without regard to the

1 deduction provided by section 242 for partially tax-
2 exempt interest.”

3 (3) Section 7701 (a) (relating to definitions) is
4 amended by adding at the end thereof the following
5 new paragraph:

6 “(33) REGULATED PUBLIC UTILITY.—The term
7 ‘regulated public utility’ means—

8 “(A) A corporation engaged in the furnishing
9 or sale of—

10 “(i) electric energy, gas, water, or sewer-
11 age disposal services, or

12 “(ii) transportation (not included in sub-
13 paragraph (C)) on an intrastate, suburban,
14 municipal, or interurban electric railroad, on an
15 intrastate, municipal, or suburban trackless
16 trolley system, or on a municipal or suburban
17 bus system, or

18 “(iii) transportation (not included in
19 clause (ii)) by motor vehicle—

20 if the rates for such furnishing or sale, as the case
21 may be, have been established or approved by a
22 State or political subdivision thereof, by an agency
23 or instrumentality of the United States, by a public
24 service or public utility commission or other similar
25 body of the District of Columbia or of any State or

1 political subdivision thereof, or by a foreign country
2 or an agency or instrumentality or political sub-
3 division thereof.

4 “(B) A corporation engaged as a common car-
5 rier in the furnishing or sale of transportation of gas
6 by pipe line, if subject to the jurisdiction of the
7 Federal Power Commission.

8 “(C) A corporation engaged as a common car-
9 rier (i) in the furnishing or sale of transportation by
10 railroad, if subject to the jurisdiction of the Inter-
11 state Commerce Commission, or (ii) in the furnish-
12 ing or sale of transportation of oil or other petroleum
13 products (including shale oil) by pipeline, if sub-
14 ject to the jurisdiction of the Interstate Commerce
15 Commission or if the rates for such furnishing or sale
16 are subject to the jurisdiction of a public service or
17 public utility commission or other similar body of
18 the District of Columbia or of any State.

19 “(D) A corporation engaged in the furnishing
20 or sale of telephone or telegraph service, if the rates
21 for such furnishing or sale meet the requirements of
22 subparagraph (A).

23 “(E) A corporation engaged in the furnishing
24 or sale of transportation as a common carrier by air,

1 subject to the jurisdiction of the Civil Aeronautics
2 Board.

3 “(F) A corporation engaged in the furnishing
4 or sale of transportation by common carrier by
5 water, subject to the jurisdiction of the Interstate
6 Commerce Commission under part III of the Inter-
7 state Commerce Act, or subject to the jurisdiction
8 of the Federal Maritime Board under the Inter-
9 coastal Shipping Act, 1933.

10 “(G) A railroad corporation subject to part I
11 of the Interstate Commerce Act, if (i) substan-
12 tially all of its railroad properties have been leased
13 to another such railroad corporation or corporations
14 by an agreement or agreements entered into before
15 January 1, 1954, (ii) each lease is for a term
16 of more than 20 years, and (iii) at least 80 per-
17 cent or more of its gross income (computed with-
18 out regard to dividends and capital gains and losses)
19 for the taxable year is derived from such leases
20 and from sources described in subparagraphs (A)
21 through (F), inclusive. For purposes of the pre-
22 ceding sentence, an agreement for lease of railroad
23 properties entered into before January 1, 1954,
24 shall be considered to be a lease including such term

1 as the total number of years of such agreement may,
2 unless sooner terminated, be renewed or continued
3 under the terms of the agreement, and any such
4 renewal or continuance under such agreement shall
5 be considered part of the lease entered into before
6 January 1, 1954.

7 “(H) A common parent corporation which is
8 a common carrier by railroad subject to part I of
9 the Interstate Commerce Act if at least 80 percent
10 of its gross income (computed without regard to
11 capital gains or losses) is derived directly or indi-
12 rectly from sources described in subparagraphs (A)
13 through (F), inclusive. For purposes of the pre-
14 ceding sentence, dividends and interest, and income
15 from leases described in subparagraph (G), received
16 from a regulated public utility shall be considered
17 as derived from sources described in subparagraphs
18 (A) through (F), inclusive, if the regulated public
19 utility is a member of an affiliated group (as defined
20 in section 1504) which includes the common parent
21 corporation.

22 The term ‘regulated public utility’ does not (except as
23 provided in subparagraphs (G) and (H)) include a
24 corporation described in subparagraphs (A) through
25 (F), inclusive, unless 80 percent or more of its gross

1 income (computed without regard to dividends and
2 capital gains and losses) for the taxable year is derived
3 from sources described in subparagraphs (A) through
4 (F), inclusive. If the taxpayer establishes to the satis-
5 faction of the Secretary or his delegate that (i) its
6 revenue from regulated rates described in subparagraph
7 (A) or (D) and its revenue derived from unregulated
8 rates are derived from the operation of a single inter-
9 connected and coordinated system or from the operation
10 of more than one such system, and (ii) the unregulated
11 rates have been and are substantially as favorable to
12 users and consumers as are the regulated rates, then such
13 revenue from such unregulated rates shall be considered,
14 for purposes of the preceding sentence, as income derived
15 from sources described in subparagraph (A) or (D).”

16 (4) Section 12(8) (relating to cross reference to
17 additional tax for corporations filing consolidated re-
18 turns) is hereby repealed.

19 (5) Paragraphs (1) and (2) of section 172(j)
20 (relating to carryover of net operating loss for certain
21 regulated transportation corporations) are amended to
22 read as follows:

23 “(1) DEFINITION.—For purposes of subsection
24 (b) (1) (C), the term ‘regulated transportation corpo-
25 ration’ means a corporation—

1 “(A) 80 percent or more of the gross income
 2 of which (computed without regard to dividends
 3 and capital gains and losses) for the taxable year
 4 is derived from the furnishing or sale of transporta-
 5 tion described in subparagraph (A), (C) (i),
 6 (E), or (F) of section 7701 (a) (33) and taken
 7 into account for purposes of the limitation contained
 8 in the last two sentences of section 7701 (a) (33),

9 “(B) which is described in subparagraph (G)
 10 or (H) of section 7701 (a) (33), or

11 “(C) which is a member of a regulated trans-
 12 portation system.

13 “(2) REGULATED TRANSPORTATION SYSTEM.—

14 For purposes of this subsection, a corporation shall be
 15 treated as a member of a regulated transportation system
 16 for a taxable year if—

17 “(A) it is a member of an affiliated group of
 18 corporations making a consolidated return for such
 19 taxable year, and

20 “(B) 80 percent or more of the aggregate
 21 gross income of the members of such affiliated group
 22 (computed without regard to dividends and capital
 23 gains and losses) for such taxable year is derived
 24 from sources described in paragraph (1) (A).

25 For purposes of subparagraph (B), income derived by

1 a corporation described in subparagraph (G) or (H)
2 of section 7701 (a) (33) from leases described in sub-
3 paragraph (G) thereof shall be considered as derived
4 from sources described in paragraph (1) (A)."

5 (6) Section 904 (g) (2) (relating to cross refer-
6 ences for purposes of the limitation on the foreign tax
7 credit) is amended by striking out "section 1503(d)"
8 and inserting in lieu thereof "section 1503(b)".

9 (7) Section 1341 (b) (2) (relating to special
10 rules for the computation of tax where taxpayer restores
11 substantial amount held under claim of right) is amended
12 by striking out "(as defined in section 1503 (c) without
13 regard to paragraph (2) thereof)" and inserting in lieu
14 thereof "(as defined in section 7701 (a) (33) without
15 regard to the limitation contained in the last two sen-
16 tences thereof)".

17 (8) Section 1552 (a) (3) (relating to the alloca-
18 tion of tax liability among members of an affiliated group
19 of corporations filing consolidated returns) is amended
20 by striking out "(determined without regard to the 2
21 percent increase provided by section 1503 (a))".

22 (c) EFFECTIVE DATE.—The amendments made by
23 subsections (a) and (b) shall apply with respect to taxable
24 years beginning after December 31, 1963.

1 **SEC. 223 237. REDUCTION OF SURTAX EXEMPTION IN CASE**
 2 **OF CERTAIN CONTROLLED CORPORATIONS,**
 3 **ETC.**

4 (a) **IN GENERAL.**—Subchapter B of chapter 6 (related
 5 rules for consolidated returns) is amended by adding at the
 6 end thereof the following new part:

7 **“PART II—CERTAIN CONTROLLED CORPORATIONS**

“Sec. 1561. Surtax exemptions in case of certain controlled corporations.

“Sec. 1562. Privilege of groups to elect multiple surtax exemptions.

“Sec. 1563. Definitions and special rules.

8 **“SEC. 1561. SURTAX EXEMPTIONS IN CASE OF CERTAIN**
 9 **CONTROLLED CORPORATIONS.**

10 “(a) **GENERAL RULE.**—If a corporation is a component
 11 member of a controlled group of corporations on a Decem-
 12 ber 31, then for purposes of this subtitle the surtax exemp-
 13 tion of such corporation for the taxable year which includes
 14 such December 31 shall be an amount equal to—

15 “(1) \$25,000 divided by the number of corpora-
 16 tions which are component members of such group on
 17 such December 31, or

18 “(2) if all such component members consent (at
 19 such time and in such manner as the Secretary or his
 20 delegate shall by regulations prescribe) to an apportion-
 21 ment plan, such portion of \$25,000 as is apportioned
 22 to such member in accordance with such plan.

1 The sum of the amounts apportioned under paragraph (2)
 2 among the component members of any controlled group
 3 shall not exceed \$25,000.

4 “(b) CERTAIN SHORT TAXABLE YEARS.—If a cor-
 5 poration—

6 “(1) has a short taxable year which does not in-
 7 clude a December 31, and

8 “(2) is a component member of a controlled group
 9 of corporations with respect to such taxable year,
 10 then for purposes of this subtitle the surtax exemption of
 11 such corporation for such taxable year shall be an amount
 12 equal to \$25,000 divided by the number of corporations
 13 which are component members of such group on the last
 14 day of such taxable year. For purposes of the preceding
 15 sentence, section 1563 (b) shall be applied as if such last
 16 day were substituted for December 31.

17 **“SEC. 1562. PRIVILEGE OF GROUPS TO ELECT MULTIPLE**
 18 **SURTAX EXEMPTIONS.**

19 “(a) ELECTION OF MULTIPLE SURTAX EXEMP-
 20 TIONS.—

21 “(1) IN GENERAL.—A controlled group of corpora-
 22 tions shall (subject to the provisions of this section) have
 23 the privilege of electing to have each of its component
 24 members make its returns without regard to section 1561.

1 Such election shall be made with respect to a specified
2 December 31 and shall be valid only if—

3 “(A) each corporation which is a component
4 member of such group on such December 31, and

5 “(B) each other corporation which is a com-
6 ponent member of such group on any succeeding De-
7 cember 31 before the day on which the election is
8 filed,

9 consents to such election.

10 “(2) YEARS FOR WHICH EFFECTIVE.—An election
11 by a controlled group of corporations under paragraph
12 (1) shall be effective with respect to the taxable year of
13 each component member of such group which includes
14 the specified December 31, and each taxable year of each
15 corporation which is a component member of such group
16 (or a successor group) on a succeeding December 31 in-
17 cluded within such taxable year, unless the election is
18 terminated under subsection (c).

19 “(3) EFFECT OF ELECTION.—If an election by a
20 controlled group of corporations under paragraph (1) is
21 effective with respect to any taxable year of a corpora-
22 tion—

23 “(A) section 1561 shall not apply to such
24 corporation for such taxable year, but

1 “(B) the additional tax imposed by subsection
2 (b) shall apply to such corporation for such taxable
3 year.

4 “(b) ADDITIONAL TAX IMPOSED.—

5 “(1) GENERAL RULE.—If an election under sub-
6 section (a) (1) by a controlled group of corporations is
7 effective with respect to the taxable year of a corporation,
8 there is hereby imposed for such taxable year on the
9 taxable income of such corporation a tax equal to 6 per-
10 cent of so much of such corporation’s taxable income
11 for such taxable year as does not exceed \$25,000.
12 ~~This paragraph shall not apply to the taxable year of a~~
13 ~~corporation if no other corporation which is a com-~~
14 ~~ponent member of such controlled group on the Decem-~~
15 ~~ber 31 included in such corporation’s taxable year has~~
16 ~~taxable income for its taxable year including such~~
17 ~~December 31. This paragraph shall not apply to the~~
18 ~~taxable year of a corporation if—~~

19 “(A) such corporation is the only component
20 member of such controlled group on the December
21 31 included in such corporation’s taxable year
22 which has taxable income for a taxable year includ-
23 ing such December 31, or

1 “(B) such corporation’s surtax exemption is
2 disallowed for such taxable year under any provision
3 of this subtitle.

4 “(2) TAX TREATED AS IMPOSED BY SECTION 11,
5 ETC.—If for the taxable year of a corporation a tax is
6 imposed by section 11 on the taxable income of such
7 corporation, the additional tax imposed by this sub-
8 section shall be treated for purposes of this title as a
9 tax imposed by section 11. If for the taxable year of
10 a corporation a tax is imposed on the taxable income
11 of such corporation which is computed under any other
12 section by reference to section 11, the additional tax
13 imposed by this subsection shall be treated for purposes
14 of this title as imposed by such other section.

15 “(3) TAXABLE INCOME DEFINED.—For purposes
16 of this subsection, the term ‘taxable income’ means—

17 “(A) in the case of a corporation subject to
18 tax under section 511, its unrelated business tax-
19 able income (within the meaning of section 512) ;

20 “(B) in the case of a life insurance company,
21 its life insurance company taxable income (within
22 the meaning of section 802 (b)) ;

23 “(C) in the case of a regulated investment
24 company, its investment company taxable income
25 (within the meaning of section 852 (b) (2)) ; and

1 “(D) in the case of a real estate investment
2 trust, its real estate investment trust taxable income
3 (within the meaning of section 857 (b) (2)).

4 “(4) SPECIAL RULES.—If for the taxable year
5 an additional tax is imposed on the taxable income of a
6 corporation by this subsection, then sections 244 (re-
7 lating to dividends received on certain preferred stock),
8 247 (relating to dividends paid on certain preferred
9 stock of public utilities), 804 (a) (3) (relating to deduc-
10 tion for partially tax-exempt interest in the case of a
11 life insurance company), and 922 (relating to special
12 deduction for Western Hemisphere trade corporations)
13 shall be applied without regard to the additional tax
14 imposed by this subsection.

15 “(c) TERMINATION OF ELECTION.—An election by a
16 controlled group of corporations under subsection (a) shall
17 terminate with respect to such group—

18 “(1) CONSENT OF THE MEMBERS.—If such group
19 files a termination of such election with respect to a
20 specified December 31, and—

21 “(A) each corporation which is a component
22 member of such group on such December 31, and

23 “(B) each other corporation which is a com-
24 ponent member of such group on any succeeding

1 December 31 before the day on which the termi-
2 nation is filed,
3 consents to such termination.

4 “(2) REFUSAL BY NEW MEMBER TO CONSENT.—
5 If on December 31 of any year such group includes a
6 component member which—

7 “(A) on the immediately preceding January
8 1 was not a member of such group, and

9 “(B) within the time and in the manner pro-
10 vided by regulations prescribed by the Secretary
11 or his delegate, files a statement that it does not
12 consent to the election.

13 “(3) CONSOLIDATED RETURNS.—If—

14 “(A) a corporation is a component member
15 (determined without regard to section 1563 (b)
16 (3)) of such group on a December 31 included
17 within a taxable year ending on or after January 1,
18 1964, and

19 “(B) such corporation is a member of an
20 affiliated group of corporations which makes a con-
21 solidated return under this chapter (sec. 1501 and
22 following) for such taxable year.

23 “(4) CONTROLLED GROUP NO LONGER IN EXIST-
24 ENCE.—If such group is considered as no longer in
25 existence with respect to any December 31.

1 Such termination shall be effective with respect to the
 2 December 31 referred to in paragraph (1) (A), (2), (3),
 3 or (4), as the case may be.

4 “(d) ELECTION AFTER TERMINATION.—If an election
 5 by a controlled group of corporations is terminated under
 6 subsection (c), such group (and any successor group) shall
 7 not be eligible to make an election under subsection (a) with
 8 respect to any December 31 before the sixth December 31
 9 after the December 31 with respect to which such termina-
 10 tion was effective.

11 “(e) MANNER AND TIME OF GIVING CONSENT AND
 12 MAKING ELECTION, ETC.—An election under subsection
 13 (a) (1) or a termination under subsection (c) (1) (and
 14 the consent of each member of a controlled group of corpo-
 15 rations which is required with respect to such election
 16 or termination) shall be made in such manner as the Secre-
 17 tary or his delegate shall by regulations prescribe, and shall
 18 be made at any time before the expiration of 3 years after—

19 “(1) in the case of such an election, the
 20 date when the income tax return for the tax-
 21 able year of the component member of the controlled
 22 group which has the taxable year ending first on or after
 23 the specified December ~~31~~, 31 is required to be filed
 24 (without regard to any extensions of time), and

25 “(2) in the case of such a termination, the spec-

1 ified December 31 with respect to which such termina-
2 tion was made.

3 Any consent to such an election or termination, and a failure
4 by a component member to file a statement that it does not
5 consent to an election under this section, shall be deemed
6 to be a consent to the application of subsection (g) (1)
7 (relating to tolling of statute of limitations on assessment
8 of deficiencies).

9 “(f) SPECIAL RULES.—For purposes of this section—

10 “(1) CONTINUING AND SUCCESSOR CONTROLLED
11 GROUPS.—The determination of whether a controlled
12 group of corporations—

13 “(A) is considered as no longer in existence
14 with respect to any December 31, or

15 “(B) is a successor to another controlled
16 group of corporations (and the effect of such deter-
17 mination with respect to any election or termina-
18 tion),

19 shall be made under regulations prescribed by the Sec-
20 retary or his delegate. For purposes of subparagraph
21 (B), such regulations shall be based on the continuation
22 (or termination) of predominant equitable ownership.

23 “(2) CERTAIN SHORT TAXABLE YEARS.—If one or
24 more corporations have short taxable years which do not
25 include a December 31 and are component members of

1 a controlled group of corporations with respect to such
 2 taxable years (determined by applying section 1563 (b)
 3 as if the last day of each such taxable year were sub-
 4 stituted for December 31), then an election by such
 5 group under this section shall apply with respect to
 6 such corporations with respect to such taxable years if—

7 “(A) such election is in effect with respect to
 8 both the December 31 immediately preceding such
 9 taxable years and the December 31 immediately
 10 succeeding such taxable years, or

11 “(B) such election is in effect with respect to
 12 the December 31 immediately preceding or succeed-
 13 ing such taxable years and each such corporation
 14 files a consent to the application of such election
 15 to its short taxable year at such time and in such
 16 manner as the Secretary or his delegate shall pre-
 17 scribe by regulations.

18 ~~“(g) TOLLING OF STATUTE OF LIMITATIONS.~~—In any
 19 ease in which a controlled group of corporations makes an
 20 election or termination under this section—

21 ~~“(1) the statutory period for assessment of any~~
 22 ~~deficiency against a corporation which is a component~~
 23 ~~member of such group for any taxable year, to the~~
 24 ~~extent such deficiency is attributable to the application~~
 25 ~~of this part, shall not expire before the expiration of~~

1 one year after the date such election or termination
2 is made; and

3 “(2) if credit or refund of any overpayment of tax
4 by a corporation which is a component member of such
5 group for any taxable year is prevented, at any time on
6 or before the expiration of one year after the date such
7 election or termination is made, by the operation of any
8 law or rule of law, credit or refund of such overpayment
9 may, nevertheless, be allowed or made, to the extent
10 such overpayment is attributable to the application of
11 this part, if claim therefor is filed on or before the ex-
12 piration of such one-year period.

13 “(g) *TOLLING OF STATUTE OF LIMITATIONS.*— In any
14 case in which a controlled group of corporations makes an
15 election or termination under this section, the statutory
16 period—

17 “(1) for assessment of any deficiency against a cor-
18 poration which is a component member of such group
19 for any taxable year, to the extent such deficiency is at-
20 tributable to the application of this part, shall not expire
21 before the expiration of one year after the date such elec-
22 tion or termination is made; and

23 “(2) for allowing or making credit or refund of
24 any overpayment of tax by a corporation which is a
25 component member of such group for any taxable year,

1 *to the extent such credit or refund is attributable to the*
 2 *application of this part, shall not expire before the expi-*
 3 *ration of one year after the date such election or termi-*
 4 *nation is made.*

5 **“SEC. 1563. DEFINITIONS AND SPECIAL RULES.**

6 “(a) CONTROLLED GROUP OF CORPORATIONS.—For
 7 purposes of this part, the term ‘controlled group of corpora-
 8 tions’ means any group of—

9 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—

10 One or more chains of corporations connected through
 11 stock ownership with a common parent corporation if—

12 “(A) stock possessing at least 80 percent of
 13 the total combined voting power of all classes of
 14 stock entitled to vote or at least 80 percent of the
 15 total value of shares of all classes of stock of each of
 16 the corporations, except the common parent cor-
 17 poration, is owned (within the meaning of subsec-
 18 tion (d) (1)) by one or more of the other corpora-
 19 tions; and

20 “(B) the common parent corporation owns
 21 (within the meaning of subsection (d) (1))
 22 stock possessing at least 80 percent of the total com-
 23 bined voting power of all classes of stock entitled to
 24 vote or at least 80 percent of the total value of
 25 shares of all classes of stock of at least one of the

1 other corporations, excluding, in computing such
2 voting power or value, stock owned directly by
3 such other corporations.

4 “(2) BROTHER-SISTER CONTROLLED GROUP.—

5 Two or more corporations if stock possessing at least
6 80 percent of the total combined voting power of all
7 classes of stock entitled to vote or at least 80 percent of
8 the total value of shares of all classes of stock of each
9 of the corporations is owned (within the meaning of
10 subsection (d) (2)) by one person who is an individ-
11 ual, estate, or trust.

12 “(3) COMBINED GROUP.—Three or more corpora-
13 tions each of which is a member of a group of corpora-
14 tions described in paragraph (1) or (2), and one of
15 which—

16 “(A) is a common parent corporation included
17 in a group of corporations described in paragraph
18 (1), and also

19 “(B) is included in a group of corporations
20 described in paragraph (2)..

21 “(4) CERTAIN INSURANCE COMPANIES.—Two
22 or more insurance companies subject to taxation under
23 section 802 which are members of a controlled group
24 of corporations described in paragraph (1), (2), or
25 (3). Such insurance companies shall be treated as a con-

1 trolled group of corporations separate from any other cor-
2 porations which are members of the controlled group of
3 corporations described in paragraph (1), (2), or (3).

4 “(b) COMPONENT MEMBER.—

5 “(1) GENERAL RULE.—For purposes of this part,
6 a corporation is a component member of a controlled
7 group of corporations on a December 31 of any taxable
8 year (and with respect to the taxable year which in-
9 cludes such December 31) if such corporation—

10 “(A) is a member of such controlled group of
11 corporations on the December 31 included in such
12 year and is not treated as an excluded member
13 under paragraph (2), or

14 “(B) is not a member of such controlled group
15 of corporations on the December 31 included in such
16 year but is treated as an additional member under
17 paragraph (3).

18 “(2) EXCLUDED MEMBERS.—A corporation which
19 is a member of a controlled group of corporations on
20 December 31 of any taxable year shall be treated as an
21 excluded member of such group for the taxable year
22 including such December 31 if such corporation—

23 “(A) is a member of such group for less than
24 one-half the number of days in such taxable year
25 which precede such December 31,

1 “(B) is exempt from taxation under section
2 501 (a) (except a corporation which is subject to
3 tax on its unrelated business taxable income under
4 section 511) for such taxable year,

5 “(C) is a foreign corporation subject to tax
6 under section 881 for such taxable year,

7 “(D) is an insurance company subject to
8 taxation under section 802 or section 821 (other
9 than an insurance company which is a member of a
10 controlled group described in subsection (a) (4)),
11 or

12 “(E) is a franchised corporation, as defined
13 in subsection (f) (4) .

14 “(3) ADDITIONAL MEMBERS.—A corporation
15 which—

16 “(A) was a member of a controlled group of
17 corporations at any time during a calendar year,

18 “(B) is not a member of such group on De-
19 cember 31 of such calendar year, and

20 “(C) is not described, with respect to such
21 group, in subparagraph (B), (C), (D), or (E)
22 of paragraph (2) ,

23 shall be treated as an additional member of such group
24 on December 31 for its taxable year including such
25 December 31 if it was a member of such group for

one-half (or more) of the number of days in such taxable year which precede such December 31.

“(4) OVERLAPPING GROUPS.—If a corporation is a component member of more than one controlled group of corporations with respect to any taxable year, such corporation shall be treated as a component member of only one controlled group. The determination as to the group of which such corporation is a component member shall be made under regulations prescribed by the Secretary or his delegate which are consistent with the purposes of this part.

“(c) CERTAIN STOCK EXCLUDED.—

“(1) GENERAL RULE.—For purposes of this part, the term ‘stock’ does not include—

“(A) nonvoting stock which is limited and preferred as to dividends,

“(B) treasury stock, and

“(C) stock which is treated as ‘excluded stock’ under paragraph (2).

“(2) STOCK TREATED AS ‘EXCLUDED STOCK’.—

“(A) PARENT-SUBSIDIARY CONTROLLED GROUP.—For purposes of subsection (a) (1), if a corporation (referred to in this paragraph as ‘parent corporation’) owns (within the meaning of subsections (d) (1) and (e) (4)), 50 percent or more of

1 the total combined voting power of all classes of
2 stock entitled to vote or 50 percent or more of the
3 total value of shares of all classes of stock in another
4 corporation (referred to in this paragraph as 'sub-
5 sidiary corporation'), the following stock of the sub-
6 sidiary corporation shall be treated as excluded
7 stock—

8 “(i) stock in the subsidiary corporation
9 held by a trust which is part of a plan of de-
10 ferred compensation for the benefit of the em-
11 ployees of the parent corporation or the
12 subsidiary corporation,

13 “(ii) stock in the subsidiary corporation
14 owned by an individual (within the meaning
15 of subsection (d) (2), ~~but not including stock~~
16 ~~owned by the parent corporation which is con-~~
17 ~~structively owned by such individual~~) who is
18 a principal stockholder or officer of the parent
19 corporation. For purposes of this clause, the
20 term 'principal stockholder' of a corporation
21 means an individual who owns (within the
22 meaning of subsection (d) (2)) 5 percent or
23 more of the total combined voting power of all
24 classes of stock entitled to vote or 5 percent

1 or more of the total value of shares of all
 2 classes of stock in such ~~corporation~~; corpora-
 3 tion, or

4 “(iii) stock in the subsidiary corporation
 5 owned (within the meaning of subsection (d)
 6 (2)) by an employee of the subsidiary corpora-
 7 tion if such stock is subject to conditions which
 8 run in favor of such parent (or subsidiary) cor-
 9 poration and which substantially restrict or limit
 10 the employee’s right (or if the employee con-
 11 structively owns such stock, the direct owner’s
 12 right) to dispose of such stock.

13 “(B) BROTHER-SISTER CONTROLLED GROUP.—
 14 For purposes of subsection (a) (2), if a person who
 15 is an individual, estate, or trust (referred to in this
 16 paragraph as ‘common owner’) owns (within the
 17 meaning of subsection (d) (2)), 50 percent or
 18 more of the total combined voting power of all
 19 classes of stock entitled to vote or 50 percent or
 20 more of the total value of shares of all classes of
 21 stock in a corporation, the following stock of such
 22 corporation shall be treated as excluded stock—

23 “(i) stock in such corporation held by
 24 an employees’ trust described in section 401 (a)

1 which is exempt from tax under section 501
2 (a), if such trust is for the benefit of the em-
3 ployees of such corporation, or

4 “(ii) stock in such corporation owned
5 (within the meaning of subsection (d) (2)) by
6 an employee of the corporation if such stock is
7 subject to conditions which run in favor of such
8 common owner (or such corporation) and
9 which substantially restrict or limit the em-
10 ployee’s right (or if the employee construc-
11 tively owns such stock, the direct owner’s
12 right) to dispose of such stock. If a condition
13 which limits or restricts the employee’s right
14 (or the direct owner’s right) to dispose of such
15 stock also applies to the stock held by the com-
16 mon owner pursuant to a bona fide reciprocal
17 stock purchase arrangement, such condition
18 shall not be treated as one which restricts or
19 limits the employee’s right to dispose of such
20 stock.

21 “(d) RULES FOR DETERMINING STOCK OWNERSHIP.—

22 “(1) PARENT-SUBSIDIARY CONTROLLED GROUP.—

23 For purposes of determining whether a corporation
24 is a member of a parent-subsidiary controlled group

of corporations (within the meaning of subsection (a) (1)), stock owned by a corporation means—

“(A) stock owned directly by such corporation, and

“(B) stock owned with the application of subsection (e) (1) .

“(2) BROTHER-SISTER CONTROLLED GROUP.—

For purposes of determining whether a corporation is a member of a brother-sister controlled group of corporations (within the meaning of subsection (a) (2)), stock owned by a person who is an individual, estate, or trust means—

“(A) stock owned directly by such person, and

“(B) stock owned with the application of subsection (e) .

“(e) CONSTRUCTIVE OWNERSHIP.—

“(1) OPTIONS.—If any person has an option to acquire stock, such stock shall be considered as owned by such person. For purposes of this paragraph, an option to acquire such an option, and each one of a series of such options, shall be considered as an option to acquire such stock.

1 “(2) **ATTRIBUTION FROM PARTNERSHIPS.**—Stock
 2 owned, directly or indirectly, by or for a partnership
 3 shall be considered as owned by any partner having an
 4 interest of 5 percent or more in either the capital or
 5 profits of the partnership in proportion to his interest in
 6 capital or profits, whichever such proportion is the
 7 greater.

8 “(3) **ATTRIBUTION FROM ESTATES OR TRUSTS.**—

9 “(A) Stock owned, directly or indirectly, by
 10 or for an estate or trust shall be considered as owned
 11 by any beneficiary who has an actuarial interest of 5
 12 percent or more in such stock, to the extent of such
 13 actuarial interest. For purposes of this subpara-
 14 graph, the actuarial interest of each beneficiary shall
 15 be determined by assuming the maximum exercise
 16 of discretion by the fiduciary in favor of such bene-
 17 ficiary and the maximum use of such stock to satisfy
 18 his rights as a beneficiary.

19 “(B) Stock owned, directly or indirectly, by
 20 or for any portion of a trust of which a person is
 21 considered the owner under subpart E of part I of
 22 subchapter J (relating to grantors and others treated
 23 as substantial owners) shall be considered as owned
 24 by such person.

25 “(C) This paragraph shall not apply to

1 stock owned by any employees' trust described in
2 section 401 (a) which is exempt from tax under
3 section 501 (a) .

4 “(4) **ATTRIBUTION FROM CORPORATIONS.**—Stock
5 owned, directly or indirectly, by or for a corporation
6 shall be considered as owned by any person who owns
7 (within the meaning of subsection (d)) 5 percent
8 or more in value of its stock in that proportion which
9 the value of the stock which such person so owns bears
10 to the value of all the stock in such corporation.

11 “(5) **SPOUSE.**—An individual shall be considered
12 as owning stock in a corporation owned, directly or indi-
13 rectly, by or for his spouse (other than a spouse who is
14 legally separated from the individual under a decree of
15 divorce whether interlocutory or final, or a decree of
16 separate maintenance), except in the case of a corpora-
17 tion with respect to which each of the following condi-
18 tions is satisfied for its taxable year—

19 “(A) The individual does not, at any time
20 during such taxable year, own directly any stock
21 in such corporation;

22 “(B) The individual is not a director or em-
23 ployee and does not participate in the management
24 of such corporation at any time during such taxable
25 year;

1 “(C) Not more than 50 percent of such corpo-
2 ration’s gross income for such taxable year was
3 derived from royalties, rents, dividends, interest,
4 and annuities; and

5 “(D) *The Such* stock in such corporation is
6 not, at any time during such taxable year, subject to
7 conditions which substantially restrict or limit the
8 spouse’s right to dispose of such stock and which
9 run in favor of the individual or his children who
10 have not attained the age of 21 years.

11 “(6) CHILDREN, GRANDCHILDREN, PARENTS, AND
12 GRANDPARENTS.—

13 “(A) MINOR CHILDREN.—An individual shall
14 be considered as owning stock owned, directly or
15 indirectly, by or for his children who have not
16 attained the age of 21 years, and, if the individual
17 has not attained the age of 21 years, the stock
18 owned, directly or indirectly, by or for his parents.

19 “(B) ADULT CHILDREN AND GRANDCHIL-
20 DREN.—An individual who owns (within the mean-
21 ing of subsection (d) (2), but without regard to
22 this subparagraph) more than 50 percent of the
23 total combined voting power of all classes of stock
24 entitled to vote or more than 50 percent of the
25 total value of shares of all classes of stock in a cor-

poration shall be considered as owning the stock in such corporation owned, directly or indirectly, by or for his parents, grandparents, grandchildren, and children who have attained the age of 21 years.

For purposes of this section, a legally adopted child of an individual shall be treated as a child of such individual by blood.

“(f) OTHER DEFINITIONS AND RULES.—

“(1) EMPLOYEE DEFINED.—For purposes of this section the term ‘employee’ has the same meaning such term is given in section 3306 (i).

“(2) OPERATING RULES.—

“(A) IN GENERAL.—Except as provided in subparagraph (B), stock constructively owned by a person by reason of the application of paragraph (1), (2), (3), (4), (5), or (6) of subsection (e) shall, for purposes of applying such paragraphs, be treated as actually owned by such person.

“(B) MEMBERS OF FAMILY.—Stock constructively owned by an individual by reason of the application of paragraph (5) or (6) of subsection (e) shall not be treated as owned by him for purposes of again applying such paragraphs in order to make another the constructive owner of such stock.

1 “(3) SPECIAL RULES.—For purposes of this
2 section—

3 “(A) If stock may be considered as owned by
4 a person under subsection (e) (1) and under
5 any other paragraph of subsection (e), it shall be
6 considered as owned by him under subsection
7 (e) (1).

8 “(B) If stock is owned (within the meaning
9 of subsection (d)) by two or more persons, such
10 stock shall be considered as owned by the person
11 whose ownership of such stock results in the cor-
12 poration being a component member of a controlled
13 group. If by reason of the preceding sentence, a
14 corporation would (but for this sentence) become a
15 component member of two controlled groups, it
16 shall be treated as a component member of one
17 controlled group. The determination as to the
18 group of which such corporation is a component
19 member shall be made under regulations prescribed
20 by the Secretary or his delegate which are con-
21 sistent with the purposes of this part.

22 “(C) *If stock is owned by a person within the*
23 *meaning of subsection (d) and such ownership*
24 *results in the corporation being a component mem-*
25 *ber of a controlled group, such stock shall not be*

1 *treated as excluded stock under subsection (c)(2),*
 2 *if by reason of treating such stock as excluded stock*
 3 *the result is that such corporation is not a component*
 4 *member of a controlled group of corporations.*

5 “(4) FRANCHISED CORPORATION.—If—

6 “(A) a parent corporation (as defined in sub-
 7 section (c) (2) (A)), or a common owner (as de-
 8 fined in subsection (c) (2) (B)), of a corporation
 9 which is a member of a controlled group of corpora-
 10 tions is under a duty (arising out of a written
 11 agreement) to sell stock of a *such* corporation (re-
 12 ferred to in this paragraph as ‘franchised corpora-
 13 tion’) which is franchised to sell the products of
 14 another member, or the common owner, of such
 15 controlled group;

16 “(B) such stock is to be sold to an employee
 17 (or employees) of such franchised corporation pur-
 18 suant to a bona fide plan designed to eliminate the
 19 stock ownership of the parent corporation or of the
 20 common owner in the franchised corporation;

21 “(C) such plan—

22 “(i) provides a reasonable selling price for
 23 such stock, and

24 “(ii) requires that a portion of the em-
 25 ployee’s share of the profits of such corporation

1 (whether received as compensation or as a
2 dividend) be applied to the purchase of such
3 stock (or the purchase of notes, bonds, de-
4 bentures or other similar evidence of indebted-
5 ness of such franchised corporation held by
6 such parent corporation or common owner) ;

7 “(D) such employee (or employees) owns
8 directly more than 20 percent of the total value
9 of shares of all classes of stock in such franchised
10 corporation ;

11 “(E) more than 50 percent of the inventory
12 of such franchised corporation is acquired from
13 members of the controlled group, the common
14 owner, or both ; and

15 “(F) all of the conditions contained in sub-
16 paragraphs (A), (B), (C), (D), and (E) have
17 been met for one-half (or more) of the number
18 of days preceding the December 31 included within
19 the taxable year (or if the taxable year does not
20 include December 31, the last day of such year)
21 of the franchised corporation,

22 then such franchised corporation shall be treated as an
23 excluded member of such group, under subsection (b)
24 (2) , for such taxable year.”

25 (b) DISALLOWANCE OF SURTAX EXEMPTION AND

1 ACCUMULATED EARNINGS CREDIT.—Section 1551 (relat-
2 ing to disallowance of surtax exemption and accumulated
3 earnings credit) is amended to read as follows:

4 “SEC. 1551. DISALLOWANCE OF SURTAX EXEMPTION AND
5 ACCUMULATED EARNINGS CREDIT.

6 “(a) IN GENERAL.—If—

7 “(1) any corporation transfers, on or after Janu-
8 ary 1, 1951, and on or before June 12, 1963, all or
9 part of its property (other than money) to a transferee
10 corporation,

11 “(2) any corporation transfers, directly or indi-
12 rectly, after June 12, 1963, all or part of its property
13 (other than money) to a transferee corporation, or

14 “(3) five or fewer individuals who are in control
15 of a corporation transfer, directly or indirectly, after
16 June 12, 1963, property (other than money) to a
17 transferee corporation,

18 and the transferee corporation was created for the purpose
19 of acquiring such property or was not actively engaged in
20 business at the time of such acquisition, and if after such
21 transfer the transferor or transferors are in control of such
22 transferee corporation during any part of the taxable year
23 of such transferee corporation, then for such taxable year of
24 such transferee corporation the Secretary or his delegate
25 may (except as may be otherwise determined under

1 subsection (d)) disallow the surtax exemption (as defined
 2 in section 11 (d)), or the \$100,000 accumulated earnings
 3 credit provided in paragraph (2) or (3) of section 535 (c),
 4 unless such transferee corporation shall establish by the clear
 5 preponderance of the evidence that the securing of such
 6 exemption or credit was not a major purpose of such
 7 transfer.

8 “(b) CONTROL.—For purposes of subsection (a), the
 9 term ‘control’ means—

10 “(1) With respect to a transferee corporation de-
 11 scribed in subsection (a) (1) or (2), the ownership by
 12 the transferor corporation, its shareholders, or both, of
 13 stock possessing at least 80 percent of the total combined
 14 voting power of all classes of stock entitled to vote or at
 15 least 80 percent of the total value of shares of all classes
 16 of the stock; or

17 “(2) With respect to each corporation described in
 18 subsection (a) (3), the ownership by the five or fewer
 19 individuals described in such subsection of stock possess-
 20 ing—

21 “(A) at least 80 percent of the total combined
 22 voting power of all classes of stock entitled to vote or
 23 at least 80 percent of the total value of shares of all
 24 classes of the stock of each corporation, and

“(B) more than 50 percent of the total combined voting power of all classes of stock entitled to vote or at least *more than* 50 percent of the total value of shares of all classes of stock of each corporation, taking into account the stock ownership of each such individual only to the extent such stock ownership is identical with respect to each such corporation.

For purposes of this subsection, section 1563 (e) shall apply in determining the ownership of stock.

~~“(e) CORPORATIONS ELECTING MULTIPLE SURTAX EXEMPTIONS.—If the surtax exemption is disallowed to a transferee corporation for any taxable year, section 1562 (b) shall not apply with respect to such transferee corporation for such taxable year.~~

~~“(d) (c) AUTHORITY OF THE SECRETARY UNDER THIS SECTION.—The provisions of section 269 (b), and the authority of the Secretary under such section, shall, to the extent not inconsistent with the provisions of this section, be applicable to this section.”~~

(c) TECHNICAL AMENDMENTS.—

(1) AMENDMENT OF SECTION 802.—The second sentence of section 802 (a) (1) (relating to tax on life insurance companies) is amended to read as follows:
“Such tax shall consist of a normal tax and surtax com-

puted as provided in section 11 as though the life insurance company taxable income were the taxable income referred to in section 11."

(2) AMENDMENT OF SECTION 269.—Section 269

(a) (relating to acquisitions made to evade or avoid income tax) is amended—

(A) by striking out "then such deduction, credit, or other allowance shall not be allowed" at the end of the first sentence and inserting in lieu thereof "then the Secretary or his delegate may disallow such deduction, credit, or other allowance"; and

(B) by adding at the end thereof the following new subsection:

~~"(d) CORPORATIONS ELECTING MULTIPLE SURTAX EXEMPTIONS.—~~If the surtax exemption is disallowed to an acquired corporation under subsection (a) for any taxable year, section 1562(b) shall not apply with respect to such acquired corporation for such taxable year."

income tax) is amended by striking out "then such deduction, credit, or other allowance shall not be allowed" at

1 *the end of the first sentence and inserting in lieu thereof*
 2 *“then the Secretary or his delegate may disallow such*
 3 *deduction, credit, or other allowance”.*

4 (3) SPECIAL RULE FOR 52-53-WEEK YEAR.—Sec-
 5 tion 441 (f) (2) (A) (relating to effective date with
 6 respect to special rules for 52-53-week year) is amended
 7 by striking out “In any case in which the effective date
 8 or the applicability of any provision of this title is ex-
 9 pressed in terms of taxable years beginning or ending
 10 with reference to a specified date” and inserting in lieu
 11 thereof “In any case in which the effective date or the
 12 applicability of any provision of this title is expressed
 13 in terms of taxable years beginning, including, or ending
 14 with reference to a specified date”.

15 (4) Subchapter B of chapter 6 is amended by
 16 inserting after the heading and before the table of
 17 sections the following:

“Part I. In general.

“Part II. Certain controlled corporations.

18 “PART I—IN GENERAL”

19 (d) EFFECTIVE DATE.—The amendments made by sub-
 20 sections (a) and (c) shall apply with respect to taxable

1 years ending after December 31, 1963. The amendment
 2 made by subsection (b) shall apply with respect to transfers
 3 made after June 12, 1963.

4 **SEC. 238. VALIDITY OF TAX LIENS AGAINST MORTGAGEES,**
 5 **PLEDGEES, AND PURCHASERS OF MOTOR VEHI-**
 6 **CLES.**

7 *(a) MORTGAGEES, PLEDGEES, AND PURCHASERS*
 8 *WITHOUT ACTUAL NOTICE OR KNOWLEDGE OF LIEN.—*
 9 *Section 6323(c) (relating to exception in case of securities)*
 10 *is amended—*

11 *(1) by striking out the heading and inserting in*
 12 *lieu thereof “EXCEPTION IN CASE OF SECURITIES AND*
 13 *MOTOR VEHICLES.—”;*

14 *(2) by striking out “a security, as defined in para-*
 15 *graph (2) of this subsection,” in paragraph (1) and*
 16 *inserting in lieu thereof “a security (as defined in para-*
 17 *graph (2)) or a motor vehicle (as defined in paragraph*
 18 *(3))”;*

19 *(3) by inserting after “such security” in paragraph*
 20 *(1) “or such motor vehicle”; and*

21 *(4) by adding at the end thereof the following new*
 22 *paragraph:*

23 *“(3) DEFINITION OF MOTOR VEHICLE.—As used*
 24 *in this subsection, the term ‘motor vehicle’ means a ve-*
 25 *hicle (other than a house trailer) which is registered*

1 for highway use under the laws of any State or foreign
2 country.”

3 (b) *LIENS FOR ESTATE AND GIFT TAXES.*—Section
4 6324 (relating to special liens for estate and gift taxes)
5 is amended—

6 (1) by striking out “(relating to transfers of se-
7 curities)” in subsections (a) and (b) and inserting in
8 lieu thereof “(relating to securities and motor ve-
9 hicles)”; and

10 (2) by striking out subsection (c) and inserting
11 in lieu thereof the following:

12 “(c) *EXCEPTION IN CASE OF SECURITIES AND MOTOR*
13 *VEHICLES.*—The lien imposed by subsection (a) or (b)
14 shall not be valid with respect to a security (as defined in
15 section 6323(c)(2)) or a motor vehicle (as defined in
16 section 6323(c)(3)) as against any mortgagee, pledgee, or
17 purchaser of any such security or motor vehicle, for an ade-
18 quate and full consideration in money or money’s worth, if
19 at the time of such mortgage, pledge, or purchase such mort-
20 gagee, pledgee, or purchaser is without notice or knowledge
21 of the existence of such lien.”

22 (c) *EFFECTIVE DATE.*—The amendments made by this
23 section shall apply only with respect to mortgages, pledges,
24 and purchases made after the date of the enactment of this
25 Act.

1 **Title III—Optional Tax On Individuals;**
2 **Collection Of Income Tax At Source**
3 **On Wages**

4 **SEC. 301. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
5 **LESS THAN \$5,000.**

6 (a) **OPTIONAL TAX.**—Section 3 (relating to optional
7 tax if adjusted gross income is less than \$5,000) is amended
8 to read as follows:

9 **“SEC. 3. OPTIONAL TAX IF ADJUSTED GROSS INCOME IS**
10 **LESS THAN \$5,000.**

11 “(a) **TAXABLE YEARS BEGINNING IN 1964.**—In lieu
12 of the tax imposed by section 1, there is hereby imposed for
13 each taxable year beginning on or after January 1, 1964,
14 and before January 1, 1965, on the taxable income of every
15 individual whose adjusted gross income for such year is less
16 than \$5,000 and who has elected for such year to pay the
17 tax imposed by this section, a tax as follows:

"Table I—Single Person—NOT Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more	
		The tax is—						The tax is—							
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$261	\$140	\$26	\$0	\$0	\$0	\$0	
900	925	2	0	0	0	2,475	2,500	266	144	30	0	0	0	0	
925	950	6	0	0	0	2,500	2,525	270	148	34	0	0	0	0	
950	975	10	0	0	0	2,525	2,550	275	152	38	0	0	0	0	
975	1,000	14	0	0	0	2,550	2,575	279	156	42	0	0	0	0	
1,000	1,025	18	0	0	0	2,575	2,600	284	160	46	0	0	0	0	
1,025	1,050	22	0	0	0	2,600	2,625	288	165	50	0	0	0	0	
1,050	1,075	26	0	0	0	2,625	2,650	293	169	54	0	0	0	0	
1,075	1,100	30	0	0	0	2,650	2,675	297	173	58	0	0	0	0	
1,100	1,125	34	0	0	0	2,675	2,700	302	178	62	0	0	0	0	
1,125	1,150	38	0	0	0	2,700	2,725	306	182	66	0	0	0	0	
1,150	1,175	42	0	0	0	2,725	2,750	311	187	70	0	0	0	0	
1,175	1,200	46	0	0	0	2,750	2,775	315	191	74	0	0	0	0	
1,200	1,225	50	0	0	0	2,775	2,800	320	195	78	0	0	0	0	
1,225	1,250	54	0	0	0	2,800	2,825	324	200	82	0	0	0	0	
1,250	1,275	58	0	0	0	2,825	2,850	329	204	86	0	0	0	0	
1,275	1,300	62	0	0	0	2,850	2,875	333	208	90	0	0	0	0	
1,300	1,325	66	0	0	0	2,875	2,900	338	213	94	0	0	0	0	
1,325	1,350	70	0	0	0	2,900	2,925	343	217	99	0	0	0	0	
1,350	1,375	74	0	0	0	2,925	2,950	348	222	103	0	0	0	0	
1,375	1,400	78	0	0	0	2,950	2,975	353	226	107	0	0	0	0	
1,400	1,425	82	0	0	0	2,975	3,000	358	230	111	0	0	0	0	
1,425	1,450	86	0	0	0	3,000	3,050	365	237	117	4	0	0	0	
1,450	1,475	90	0	0	0	3,050	3,100	374	246	125	12	0	0	0	
1,475	1,500	94	0	0	0	3,100	3,150	383	255	134	20	0	0	0	
1,500	1,525	99	0	0	0	3,150	3,200	392	264	142	28	0	0	0	
1,525	1,550	103	0	0	0	3,200	3,250	401	273	150	36	0	0	0	
1,550	1,575	107	0	0	0	3,250	3,300	410	282	158	44	0	0	0	
1,575	1,600	111	0	0	0	3,300	3,350	419	291	167	52	0	0	0	
1,600	1,625	115	2	0	0	3,350	3,400	428	300	176	60	0	0	0	
1,625	1,650	119	6	0	0	3,400	3,450	437	309	184	68	0	0	0	
1,650	1,675	123	10	0	0	3,450	3,500	446	318	193	76	0	0	0	
1,675	1,700	127	14	0	0	3,500	3,550	455	327	202	84	0	0	0	
1,700	1,725	132	18	0	0	3,550	3,600	464	336	211	92	0	0	0	
1,725	1,750	136	22	0	0	3,600	3,650	473	345	219	101	0	0	0	
1,750	1,775	140	26	0	0	3,650	3,700	482	355	228	109	0	0	0	
1,775	1,800	144	30	0	0	3,700	3,750	491	365	237	117	4	0	0	
1,800	1,825	148	34	0	0	3,750	3,800	500	375	246	125	12	0	0	
1,825	1,850	152	38	0	0	3,800	3,850	509	385	255	134	20	0	0	
1,850	1,875	156	42	0	0	3,850	3,900	518	395	264	142	28	0	0	
1,875	1,900	160	46	0	0	3,900	3,950	527	405	273	150	36	0	0	
1,900	1,925	165	50	0	0	3,950	4,000	536	415	282	158	44	0	0	
1,925	1,950	169	54	0	0	4,000	4,050	545	425	291	167	52	0	0	
1,950	1,975	173	58	0	0	4,050	4,100	554	434	300	176	60	0	0	
1,975	2,000	178	62	0	0	4,100	4,150	563	443	309	184	68	0	0	
2,000	2,025	182	66	0	0	4,150	4,200	572	452	318	193	76	0	0	
2,025	2,050	187	70	0	0	4,200	4,250	581	461	327	202	84	0	0	
2,050	2,075	191	74	0	0	4,250	4,300	590	470	336	211	92	0	0	
2,075	2,100	195	78	0	0	4,300	4,350	599	479	345	219	101	0	0	
2,100	2,125	200	82	0	0	4,350	4,400	608	488	355	228	109	0	0	
2,125	2,150	204	86	0	0	4,400	4,450	617	497	365	237	117	4	0	
2,150	2,175	208	90	0	0	4,450	4,500	626	506	375	246	125	12	0	
2,175	2,200	213	94	0	0	4,500	4,550	635	515	385	255	134	20	0	
2,200	2,225	217	99	0	0	4,550	4,600	644	524	395	264	142	28	0	
2,225	2,250	222	103	0	0	4,600	4,650	653	533	405	273	150	36	0	
2,250	2,275	226	107	0	0	4,650	4,700	662	542	415	282	158	44	0	
2,275	2,300	230	111	0	0	4,700	4,750	671	551	425	291	167	52	0	
2,300	2,325	235	115	2	0	4,750	4,800	680	560	435	300	176	60	0	
2,325	2,350	239	119	6	0	4,800	4,850	689	569	445	309	184	68	0	
2,350	2,375	243	123	10	0	4,850	4,900	698	578	455	318	193	76	0	
2,375	2,400	248	127	14	0	4,900	4,950	707	587	465	327	202	84	0	
2,400	2,425	252	132	18	0	4,950	5,000	716	596	475	336	211	92	0	
2,425	2,450	257	136	22	0										

"Table II—Head of Household

"Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more	
		The tax is—						The tax is—							
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$258	\$138	\$26	\$0	\$0	\$0	\$0	
900	925	2	0	0	0	2,475	2,500	263	142	30	0	0	0	0	
925	950	6	0	0	0	2,500	2,525	267	146	34	0	0	0	0	
950	975	10	0	0	0	2,525	2,550	272	150	38	0	0	0	0	
975	1,000	14	0	0	0	2,550	2,575	276	154	42	0	0	0	0	
1,000	1,025	18	0	0	0	2,575	2,600	280	158	46	0	0	0	0	
1,025	1,050	22	0	0	0	2,600	2,625	285	162	50	0	0	0	0	
1,050	1,075	26	0	0	0	2,625	2,650	289	167	54	0	0	0	0	
1,075	1,100	30	0	0	0	2,650	2,675	293	171	58	0	0	0	0	
1,100	1,125	34	0	0	0	2,675	2,700	298	175	62	0	0	0	0	
1,125	1,150	38	0	0	0	2,700	2,725	302	180	66	0	0	0	0	
1,150	1,175	42	0	0	0	2,725	2,750	307	184	70	0	0	0	0	
1,175	1,200	46	0	0	0	2,750	2,775	311	188	74	0	0	0	0	
1,200	1,225	50	0	0	0	2,775	2,800	315	193	78	0	0	0	0	
1,225	1,250	54	0	0	0	2,800	2,825	320	197	82	0	0	0	0	
1,250	1,275	58	0	0	0	2,825	2,850	324	202	86	0	0	0	0	
1,275	1,300	62	0	0	0	2,850	2,875	328	206	90	0	0	0	0	
1,300	1,325	66	0	0	0	2,875	2,900	333	210	94	0	0	0	0	
1,325	1,350	70	0	0	0	2,900	2,925	337	215	98	0	0	0	0	
1,350	1,375	74	0	0	0	2,925	2,950	342	219	102	0	0	0	0	
1,375	1,400	78	0	0	0	2,950	2,975	347	223	106	0	0	0	0	
1,400	1,425	82	0	0	0	2,975	3,000	352	228	110	0	0	0	0	
1,425	1,450	86	0	0	0	3,000	3,050	358	234	116	4	0	0	0	
1,450	1,475	90	0	0	0	3,050	3,100	367	243	124	12	0	0	0	
1,475	1,500	94	0	0	0	3,100	3,150	375	252	132	20	0	0	0	
1,500	1,525	98	0	0	0	3,150	3,200	384	261	140	28	0	0	0	
1,525	1,550	102	0	0	0	3,200	3,250	392	269	148	36	0	0	0	
1,550	1,575	106	0	0	0	3,250	3,300	401	278	156	44	0	0	0	
1,575	1,600	110	0	0	0	3,300	3,350	410	287	164	52	0	0	0	
1,600	1,625	114	2	0	0	3,350	3,400	418	296	173	60	0	0	0	
1,625	1,650	118	6	0	0	3,400	3,450	427	304	182	68	0	0	0	
1,650	1,675	122	10	0	0	3,450	3,500	435	313	191	76	0	0	0	
1,675	1,700	126	14	0	0	3,500	3,550	444	322	199	84	0	0	0	
1,700	1,725	130	18	0	0	3,550	3,600	452	331	208	92	0	0	0	
1,725	1,750	134	22	0	0	3,600	3,650	461	340	217	100	0	0	0	
1,750	1,775	138	26	0	0	3,650	3,700	469	349	226	108	0	0	0	
1,775	1,800	142	30	0	0	3,700	3,750	478	359	234	116	4	0	0	
1,800	1,825	146	34	0	0	3,750	3,800	487	368	243	124	12	0	0	
1,825	1,850	150	38	0	0	3,800	3,850	495	378	252	132	20	0	0	
1,850	1,875	154	42	0	0	3,850	3,900	504	387	261	140	28	0	0	
1,875	1,900	158	46	0	0	3,900	3,950	512	397	269	148	36	0	0	
1,900	1,925	162	50	0	0	3,950	4,000	521	406	278	156	44	0	0	
1,925	1,950	167	54	0	0	4,000	4,050	529	415	287	164	52	0	0	
1,950	1,975	171	58	0	0	4,050	4,100	538	424	296	173	60	0	0	
1,975	2,000	175	62	0	0	4,100	4,150	546	432	304	182	68	0	0	
2,000	2,025	180	66	0	0	4,150	4,200	555	441	313	191	76	0	0	
2,025	2,050	184	70	0	0	4,200	4,250	563	449	322	199	84	0	0	
2,050	2,075	188	74	0	0	4,250	4,300	572	458	331	208	92	0	0	
2,075	2,100	193	78	0	0	4,300	4,350	581	467	340	217	100	0	0	
2,100	2,125	197	82	0	0	4,350	4,400	589	475	349	226	108	0	0	
2,125	2,150	202	86	0	0	4,400	4,450	598	484	359	234	116	4	0	
2,150	2,175	206	90	0	0	4,450	4,500	606	492	368	243	124	12	0	
2,175	2,200	210	94	0	0	4,500	4,550	615	501	378	252	132	20	0	
2,200	2,225	215	98	0	0	4,550	4,600	623	509	387	261	140	28	0	
2,225	2,250	219	102	0	0	4,600	4,650	632	518	397	269	148	36	0	
2,250	2,275	223	106	0	0	4,650	4,700	640	526	406	278	156	44	0	
2,275	2,300	228	110	0	0	4,700	4,750	649	535	416	287	164	52	0	
2,300	2,325	232	114	2	0	4,750	4,800	658	544	425	296	173	60	0	
2,325	2,350	237	118	6	0	4,800	4,850	666	552	435	304	182	68	0	
2,350	2,375	241	122	10	0	4,850	4,900	675	561	444	313	191	76	0	
2,375	2,400	245	126	14	0	4,900	4,950	683	569	454	322	199	84	0	
2,400	2,425	250	130	18	0	4,950	5,000	692	578	463	331	208	92	0	
2,425	2,450	254	134	22	0										

“Table III—Married Persons Filing JOINT Returns

“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$195	\$82	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	199	86	0	0	0	0
1,625	1,650	6	0	0	2,850	2,875	203	90	0	0	0	0
1,650	1,675	10	0	0	2,875	2,900	207	94	0	0	0	0
1,675	1,700	14	0	0	2,900	2,925	212	98	0	0	0	0
1,700	1,725	18	0	0	2,925	2,950	216	102	0	0	0	0
1,725	1,750	22	0	0	2,950	2,975	220	106	0	0	0	0
1,750	1,775	26	0	0	2,975	3,000	224	110	0	0	0	0
1,775	1,800	30	0	0	3,000	3,050	230	116	4	0	0	0
1,800	1,825	34	0	0	3,050	3,100	238	124	12	0	0	0
1,825	1,850	38	0	0	3,100	3,150	247	132	20	0	0	0
1,850	1,875	42	0	0	3,150	3,200	255	140	28	0	0	0
1,875	1,900	46	0	0	3,200	3,250	263	148	36	0	0	0
1,900	1,925	50	0	0	3,250	3,300	271	156	44	0	0	0
1,925	1,950	54	0	0	3,300	3,350	280	164	52	0	0	0
1,950	1,975	58	0	0	3,350	3,400	288	172	60	0	0	0
1,975	2,000	62	0	0	3,400	3,450	296	181	68	0	0	0
2,000	2,025	66	0	0	3,450	3,500	304	189	76	0	0	0
2,025	2,050	70	0	0	3,500	3,550	313	197	84	0	0	0
2,050	2,075	74	0	0	3,550	3,600	321	205	92	0	0	0
2,075	2,100	78	0	0	3,600	3,650	329	214	100	0	0	0
2,100	2,125	82	0	0	3,650	3,700	338	222	108	0	0	0
2,125	2,150	86	0	0	3,700	3,750	347	230	116	4	0	0
2,150	2,175	90	0	0	3,750	3,800	356	238	124	12	0	0
2,175	2,200	94	0	0	3,800	3,850	364	247	132	20	0	0
2,200	2,225	98	0	0	3,850	3,900	373	255	140	28	0	0
2,225	2,250	102	0	0	3,900	3,950	382	263	148	36	0	0
2,250	2,275	106	0	0	3,950	4,000	391	271	156	44	0	0
2,275	2,300	110	0	0	4,000	4,050	399	280	164	52	0	0
2,300	2,325	114	2	0	4,050	4,100	407	288	172	60	0	0
2,325	2,350	118	6	0	4,100	4,150	415	296	181	68	0	0
2,350	2,375	122	10	0	4,150	4,200	423	304	189	76	0	0
2,375	2,400	126	14	0	4,200	4,250	430	313	197	84	0	0
2,400	2,425	130	18	0	4,250	4,300	438	321	205	92	0	0
2,425	2,450	134	22	0	4,300	4,350	446	329	214	100	0	0
2,450	2,475	138	26	0	4,350	4,400	454	338	222	108	0	0
2,475	2,500	142	30	0	4,400	4,450	462	347	230	116	4	0
2,500	2,525	146	34	0	4,450	4,500	470	356	238	124	12	0
2,525	2,550	150	38	0	4,500	4,550	478	364	247	132	20	0
2,550	2,575	154	42	0	4,550	4,600	486	373	255	140	28	0
2,575	2,600	158	46	0	4,600	4,650	493	382	263	148	36	0
2,600	2,625	162	50	0	4,650	4,700	501	391	271	156	44	0
2,625	2,650	166	54	0	4,700	4,750	509	399	280	164	52	0
2,650	2,675	170	58	0	4,750	4,800	518	408	288	172	60	0
2,675	2,700	174	62	0	4,800	4,850	526	417	296	181	68	0
2,700	2,725	179	66	0	4,850	4,900	534	426	304	189	76	0
2,725	2,750	183	70	0	4,900	4,950	542	434	313	197	84	0
2,750	2,775	187	74	0	4,950	5,000	550	443	321	205	92	0
2,775	2,800	191	78	0								

“Table IV—Married Persons Filing SEPARATE Returns
“10 PERCENT STANDARD DEDUCTION
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$251	\$147	\$49	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	255	150	52	0	0	0	0	0
700	725	7	0	0	0	2,375	2,400	259	154	56	0	0	0	0	0
725	750	10	0	0	0	2,400	2,425	263	158	59	0	0	0	0	0
750	775	14	0	0	0	2,425	2,450	267	161	63	0	0	0	0	0
775	800	17	0	0	0	2,450	2,475	271	165	67	0	0	0	0	0
800	825	21	0	0	0	2,475	2,500	275	169	70	0	0	0	0	0
825	850	25	0	0	0	2,500	2,525	279	173	74	0	0	0	0	0
850	875	28	0	0	0	2,525	2,550	283	177	77	0	0	0	0	0
875	900	32	0	0	0	2,550	2,575	287	181	81	0	0	0	0	0
900	925	35	0	0	0	2,575	2,600	291	185	85	0	0	0	0	0
925	950	39	0	0	0	2,600	2,625	295	189	88	0	0	0	0	0
950	975	43	0	0	0	2,625	2,650	299	193	92	0	0	0	0	0
975	1,000	46	0	0	0	2,650	2,675	303	197	96	0	0	0	0	0
1,000	1,025	50	0	0	0	2,675	2,700	307	201	100	3	0	0	0	0
1,025	1,050	53	0	0	0	2,700	2,725	311	205	103	7	0	0	0	0
1,050	1,075	57	0	0	0	2,725	2,750	315	209	107	10	0	0	0	0
1,075	1,100	61	0	0	0	2,750	2,775	320	213	111	14	0	0	0	0
1,100	1,125	64	0	0	0	2,775	2,800	324	217	114	17	0	0	0	0
1,125	1,150	68	0	0	0	2,800	2,825	328	220	118	21	0	0	0	0
1,150	1,175	71	0	0	0	2,825	2,850	332	224	122	25	0	0	0	0
1,175	1,200	75	0	0	0	2,850	2,875	336	228	126	28	0	0	0	0
1,200	1,225	79	0	0	0	2,875	2,900	340	232	129	32	0	0	0	0
1,225	1,250	82	0	0	0	2,900	2,925	344	236	133	35	0	0	0	0
1,250	1,275	86	0	0	0	2,925	2,950	349	240	137	39	0	0	0	0
1,275	1,300	90	0	0	0	2,950	2,975	353	244	140	43	0	0	0	0
1,300	1,325	93	0	0	0	2,975	3,000	358	248	144	46	0	0	0	0
1,325	1,350	97	1	0	0	3,000	3,050	365	254	150	52	0	0	0	0
1,350	1,375	101	4	0	0	3,050	3,100	374	262	157	59	0	0	0	0
1,375	1,400	105	8	0	0	3,100	3,150	383	270	165	66	0	0	0	0
1,400	1,425	108	11	0	0	3,150	3,200	392	278	173	73	0	0	0	0
1,425	1,450	112	15	0	0	3,200	3,250	401	286	180	80	0	0	0	0
1,450	1,475	116	19	0	0	3,250	3,300	410	295	188	88	0	0	0	0
1,475	1,500	119	22	0	0	3,300	3,350	419	303	196	95	0	0	0	0
1,500	1,525	123	26	0	0	3,350	3,400	428	311	204	103	6	0	0	0
1,525	1,550	127	29	0	0	3,400	3,450	437	319	212	110	13	0	0	0
1,550	1,575	131	33	0	0	3,450	3,500	446	327	220	118	20	0	0	0
1,575	1,600	134	37	0	0	3,500	3,550	455	335	228	125	28	0	0	0
1,600	1,625	138	40	0	0	3,550	3,600	464	344	236	132	35	0	0	0
1,625	1,650	142	44	0	0	3,600	3,650	473	353	243	140	42	0	0	0
1,650	1,675	145	47	0	0	3,650	3,700	482	362	251	147	49	0	0	0
1,675	1,700	149	51	0	0	3,700	3,750	491	371	259	155	56	0	0	0
1,700	1,725	153	55	0	0	3,750	3,800	500	380	268	162	64	0	0	0
1,725	1,750	157	58	0	0	3,800	3,850	509	389	276	170	71	0	0	0
1,750	1,775	160	62	0	0	3,850	3,900	518	398	284	178	78	0	0	0
1,775	1,800	164	65	0	0	3,900	3,950	527	407	292	186	85	0	0	0
1,800	1,825	168	69	0	0	3,950	4,000	536	416	300	194	93	0	0	0
1,825	1,850	172	73	0	0	4,000	4,050	545	425	308	201	100	4	0	0
1,850	1,875	176	76	0	0	4,050	4,100	554	434	316	209	108	11	0	0
1,875	1,900	180	80	0	0	4,100	4,150	563	443	324	217	115	18	0	0
1,900	1,925	184	84	0	0	4,150	4,200	572	452	332	225	122	25	0	0
1,925	1,950	188	87	0	0	4,200	4,250	581	461	341	233	130	32	0	0
1,950	1,975	192	91	0	0	4,250	4,300	590	470	350	241	137	40	0	0
1,975	2,000	196	95	0	0	4,300	4,350	599	479	359	249	145	47	0	0
2,000	2,025	199	98	2	0	4,350	4,400	608	488	368	257	152	54	0	0
2,025	2,050	203	102	5	0	4,400	4,450	617	497	377	265	160	61	0	0
2,050	2,075	207	106	9	0	4,450	4,500	626	506	386	273	167	68	0	0
2,075	2,100	211	109	13	0	4,500	4,550	635	515	395	281	175	76	0	0
2,100	2,125	215	113	16	0	4,550	4,600	644	524	404	289	183	83	0	0
2,125	2,150	219	117	20	0	4,600	4,650	653	533	413	297	191	90	0	0
2,150	2,175	223	121	23	0	4,650	4,700	662	542	422	305	199	98	1	0
2,175	2,200	227	124	27	0	4,700	4,750	671	551	431	313	207	105	8	0
2,200	2,225	231	128	31	0	4,750	4,800	680	560	440	322	215	113	16	0
2,225	2,250	235	132	34	0	4,800	4,850	689	569	449	330	222	120	23	0
2,250	2,275	239	135	38	0	4,850	4,900	698	578	458	338	230	127	30	0
2,275	2,300	243	139	41	0	4,900	4,950	707	587	467	347	238	135	37	0
2,300	2,325	247	143	45	0	4,950	5,000	716	596	476	356	246	142	44	0

“Table V—Married Persons Filing SEPARATE Returns
“MINIMUM STANDARD DEDUCTION
“Taxable Years Beginning in 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$270	\$148	\$34	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	275	152	38	0	0	0	0	0
825	850	6	0	0	0	2,450	2,475	270	156	42	0	0	0	0	0
850	875	10	0	0	0	2,475	2,500	284	160	46	0	0	0	0	0
875	900	14	0	0	0	2,500	2,525	288	165	50	0	0	0	0	0
900	925	18	0	0	0	2,525	2,550	293	169	54	0	0	0	0	0
925	950	22	0	0	0	2,550	2,575	297	173	58	0	0	0	0	0
950	975	26	0	0	0	2,575	2,600	302	178	62	0	0	0	0	0
975	1,000	30	0	0	0	2,600	2,625	306	182	66	0	0	0	0	0
1,000	1,025	34	0	0	0	2,625	2,650	311	187	70	0	0	0	0	0
1,025	1,050	38	0	0	0	2,650	2,675	315	191	74	0	0	0	0	0
1,050	1,075	42	0	0	0	2,675	2,700	320	195	78	0	0	0	0	0
1,075	1,100	46	0	0	0	2,700	2,725	324	200	82	0	0	0	0	0
1,100	1,125	50	0	0	0	2,725	2,750	329	204	86	0	0	0	0	0
1,125	1,150	54	0	0	0	2,750	2,775	333	208	90	0	0	0	0	0
1,150	1,175	58	0	0	0	2,775	2,800	338	213	94	0	0	0	0	0
1,175	1,200	62	0	0	0	2,800	2,825	343	217	99	0	0	0	0	0
1,200	1,225	66	0	0	0	2,825	2,850	348	222	103	0	0	0	0	0
1,225	1,250	70	0	0	0	2,850	2,875	353	226	107	0	0	0	0	0
1,250	1,275	74	0	0	0	2,875	2,900	358	230	111	0	0	0	0	0
1,275	1,300	78	0	0	0	2,900	2,925	363	235	115	2	0	0	0	0
1,300	1,325	82	0	0	0	2,925	2,950	368	239	119	6	0	0	0	0
1,325	1,350	86	0	0	0	2,950	2,975	373	243	123	10	0	0	0	0
1,350	1,375	90	0	0	0	2,975	3,000	378	248	127	14	0	0	0	0
1,375	1,400	94	0	0	0	3,000	3,050	385	255	134	20	0	0	0	0
1,400	1,425	99	0	0	0	3,050	3,100	395	264	142	28	0	0	0	0
1,425	1,450	103	0	0	0	3,100	3,150	405	273	150	36	0	0	0	0
1,450	1,475	107	0	0	0	3,150	3,200	415	282	158	44	0	0	0	0
1,475	1,500	111	0	0	0	3,200	3,250	425	291	167	52	0	0	0	0
1,500	1,525	115	2	0	0	3,250	3,300	435	300	176	60	0	0	0	0
1,525	1,550	119	6	0	0	3,300	3,350	445	309	184	68	0	0	0	0
1,550	1,575	123	10	0	0	3,350	3,400	455	318	193	76	0	0	0	0
1,575	1,600	127	14	0	0	3,400	3,450	465	327	202	84	0	0	0	0
1,600	1,625	132	18	0	0	3,450	3,500	475	336	211	92	0	0	0	0
1,625	1,650	136	22	0	0	3,500	3,550	485	345	219	101	4	0	0	0
1,650	1,675	140	26	0	0	3,550	3,600	495	355	228	109	12	0	0	0
1,675	1,700	144	30	0	0	3,600	3,650	505	365	237	117	20	0	0	0
1,700	1,725	148	34	0	0	3,650	3,700	515	375	246	125	28	0	0	0
1,725	1,750	152	38	0	0	3,700	3,750	525	385	255	134	36	0	0	0
1,750	1,775	156	42	0	0	3,750	3,800	535	395	264	142	44	0	0	0
1,775	1,800	160	46	0	0	3,800	3,850	545	405	273	150	52	0	0	0
1,800	1,825	165	50	0	0	3,850	3,900	555	415	282	158	60	0	0	0
1,825	1,850	169	54	0	0	3,900	3,950	565	425	291	167	68	0	0	0
1,850	1,875	173	58	0	0	3,950	4,000	575	435	300	176	76	0	0	0
1,875	1,900	178	62	0	0	4,000	4,050	585	445	309	184	84	0	0	0
1,900	1,925	182	66	0	0	4,050	4,100	595	455	318	193	92	0	0	0
1,925	1,950	187	70	0	0	4,100	4,150	605	465	327	202	101	4	0	0
1,950	1,975	191	74	0	0	4,150	4,200	615	475	336	211	109	12	0	0
1,975	2,000	195	78	0	0	4,200	4,250	625	485	345	219	117	20	0	0
2,000	2,025	200	82	0	0	4,250	4,300	635	495	355	228	125	28	0	0
2,025	2,050	204	86	0	0	4,300	4,350	645	505	365	237	134	36	0	0
2,050	2,075	208	90	0	0	4,350	4,400	655	515	375	246	142	44	0	0
2,075	2,100	213	94	0	0	4,400	4,450	665	525	385	255	150	52	0	0
2,100	2,125	217	99	0	0	4,450	4,500	675	535	395	264	158	60	0	0
2,125	2,150	222	103	0	0	4,500	4,550	685	545	405	273	167	68	0	0
2,150	2,175	226	107	0	0	4,550	4,600	695	555	415	282	176	76	0	0
2,175	2,200	230	111	0	0	4,600	4,650	705	565	425	291	184	84	0	0
2,200	2,225	235	115	2	0	4,650	4,700	715	575	435	300	193	92	0	0
2,225	2,250	239	119	6	0	4,700	4,750	725	585	445	309	202	101	4	0
2,250	2,275	243	123	10	0	4,750	4,800	735	595	455	318	211	109	12	0
2,275	2,300	248	127	14	0	4,800	4,850	746	605	465	327	219	117	20	0
2,300	2,325	252	132	18	0	4,850	4,900	758	615	475	336	228	125	28	0
2,325	2,350	257	136	22	0	4,900	4,950	769	625	485	345	237	134	36	0
2,350	2,375	261	140	26	0	4,950	5,000	781	635	495	355	246	142	44	0
2,375	2,400	266	144	30	0										

1 “(b) TAXABLE YEARS BEGINNING AFTER DECEM-
2 BER 31, 1964.—In lieu of the tax imposed by section 1,
3 there is hereby imposed for each taxable year beginning

1 after December 31, 1964, on the taxable income of every
2 individual whose adjusted gross income for such year is
3 less than \$5,000 and who has elected for such year to pay
4 the tax imposed by this section a tax as follows:

“Table I—Single Person—NOT Head of Household
“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$236	\$124	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	240	128	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	244	132	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	248	136	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	253	139	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	257	143	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	261	147	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	265	151	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	270	155	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	274	159	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	278	163	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	282	167	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	287	171	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	291	175	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	295	179	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	299	183	76	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	304	187	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	308	191	83	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	312	195	87	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	317	199	91	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	322	203	94	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	327	207	98	0	0	0	0
1,425	1,450	76	0	0	0	3,000	3,050	333	213	104	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	342	221	111	11	0	0	0
1,475	1,500	83	0	0	0	3,100	3,150	350	229	119	18	0	0	0
1,500	1,525	87	0	0	0	3,150	3,200	359	238	126	25	0	0	0
1,525	1,550	91	0	0	0	3,200	3,250	367	246	134	32	0	0	0
1,550	1,575	94	0	0	0	3,250	3,300	376	255	141	39	0	0	0
1,575	1,600	98	0	0	0	3,300	3,350	385	263	149	46	0	0	0
1,600	1,625	102	2	0	0	3,350	3,400	393	272	157	53	0	0	0
1,625	1,650	106	5	0	0	3,400	3,450	402	280	165	60	0	0	0
1,650	1,675	109	9	0	0	3,450	3,500	410	289	173	67	0	0	0
1,675	1,700	113	12	0	0	3,500	3,550	419	297	181	74	0	0	0
1,700	1,725	117	16	0	0	3,550	3,600	427	306	189	81	0	0	0
1,725	1,750	121	19	0	0	3,600	3,650	436	315	197	89	0	0	0
1,750	1,775	124	23	0	0	3,650	3,700	444	324	205	96	0	0	0
1,775	1,800	128	26	0	0	3,700	3,750	453	334	213	104	4	0	0
1,800	1,825	132	30	0	0	3,750	3,800	462	343	221	111	11	0	0
1,825	1,850	136	33	0	0	3,800	3,850	470	353	229	119	18	0	0
1,850	1,875	139	37	0	0	3,850	3,900	479	362	238	126	25	0	0
1,875	1,900	143	40	0	0	3,900	3,950	487	372	246	134	32	0	0
1,900	1,925	147	44	0	0	3,950	4,000	496	381	255	141	39	0	0
1,925	1,950	151	47	0	0	4,000	4,050	504	390	263	149	46	0	0
1,950	1,975	155	51	0	0	4,050	4,100	513	399	272	157	53	0	0
1,975	2,000	159	54	0	0	4,100	4,150	521	407	280	165	60	0	0
2,000	2,025	163	58	0	0	4,150	4,200	530	416	289	173	67	0	0
2,025	2,050	167	61	0	0	4,200	4,250	538	424	297	181	74	0	0
2,050	2,075	171	65	0	0	4,250	4,300	547	433	306	189	81	0	0
2,075	2,100	175	68	0	0	4,300	4,350	556	442	315	197	89	0	0
2,100	2,125	179	72	0	0	4,350	4,400	564	450	324	205	96	0	0
2,125	2,150	183	76	0	0	4,400	4,450	573	459	334	213	104	4	0
2,150	2,175	187	79	0	0	4,450	4,500	581	467	343	221	111	11	0
2,175	2,200	191	83	0	0	4,500	4,550	590	476	353	229	119	18	0
2,200	2,225	195	87	0	0	4,550	4,600	598	484	362	238	126	25	0
2,225	2,250	199	91	0	0	4,600	4,650	607	493	372	246	134	32	0
2,250	2,275	203	94	0	0	4,650	4,700	615	501	381	255	141	39	0
2,275	2,300	207	98	0	0	4,700	4,750	624	510	391	263	149	46	0
2,300	2,325	211	102	2	0	4,750	4,800	633	519	400	272	157	53	0
2,325	2,350	215	106	5	0	4,800	4,850	641	527	410	280	165	60	0
2,350	2,375	219	109	9	0	4,850	4,900	650	536	419	289	173	67	0
2,375	2,400	223	113	12	0	4,900	4,950	658	544	429	297	181	74	0
2,400	2,425	227	117	16	0	4,950	5,000	667	553	438	306	189	81	0
2,425	2,450	231	121	19	0									

Table II—Head of Household

Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—						
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7 or more
		The tax is—						The tax is—						
\$0	\$900	\$0	\$0	\$0	\$0	\$2,450	\$2,475	\$230	\$121	\$23	\$0	\$0	\$0	\$0
900	925	2	0	0	0	2,475	2,500	234	124	26	0	0	0	0
925	950	5	0	0	0	2,500	2,525	238	128	30	0	0	0	0
950	975	9	0	0	0	2,525	2,550	242	131	33	0	0	0	0
975	1,000	12	0	0	0	2,550	2,575	246	135	37	0	0	0	0
1,000	1,025	16	0	0	0	2,575	2,600	250	138	40	0	0	0	0
1,025	1,050	19	0	0	0	2,600	2,625	254	142	44	0	0	0	0
1,050	1,075	23	0	0	0	2,625	2,650	258	146	47	0	0	0	0
1,075	1,100	26	0	0	0	2,650	2,675	262	150	51	0	0	0	0
1,100	1,125	30	0	0	0	2,675	2,700	266	154	54	0	0	0	0
1,125	1,150	33	0	0	0	2,700	2,725	270	158	58	0	0	0	0
1,150	1,175	37	0	0	0	2,725	2,750	274	162	61	0	0	0	0
1,175	1,200	40	0	0	0	2,750	2,775	278	166	65	0	0	0	0
1,200	1,225	44	0	0	0	2,775	2,800	282	170	68	0	0	0	0
1,225	1,250	47	0	0	0	2,800	2,825	286	174	72	0	0	0	0
1,250	1,275	51	0	0	0	2,825	2,850	290	178	75	0	0	0	0
1,275	1,300	54	0	0	0	2,850	2,875	294	182	79	0	0	0	0
1,300	1,325	58	0	0	0	2,875	2,900	298	186	82	0	0	0	0
1,325	1,350	61	0	0	0	2,900	2,925	302	190	86	0	0	0	0
1,350	1,375	65	0	0	0	2,925	2,950	307	194	89	0	0	0	0
1,375	1,400	68	0	0	0	2,950	2,975	311	198	93	0	0	0	0
1,400	1,425	72	0	0	0	2,975	3,000	316	202	96	0	0	0	0
1,425	1,450	75	0	0	0	3,000	3,050	322	208	102	4	0	0	0
1,450	1,475	79	0	0	0	3,050	3,100	330	216	109	11	0	0	0
1,475	1,500	82	0	0	0	3,100	3,150	338	224	116	18	0	0	0
1,500	1,525	86	0	0	0	3,150	3,200	346	232	123	25	0	0	0
1,525	1,550	89	0	0	0	3,200	3,250	354	240	130	32	0	0	0
1,550	1,575	93	0	0	0	3,250	3,300	363	248	137	39	0	0	0
1,575	1,600	96	0	0	0	3,300	3,350	371	256	144	46	0	0	0
1,600	1,625	100	2	0	0	3,350	3,400	379	264	152	53	0	0	0
1,625	1,650	103	5	0	0	3,400	3,450	387	272	160	60	0	0	0
1,650	1,675	107	9	0	0	3,450	3,500	395	280	168	67	0	0	0
1,675	1,700	110	12	0	0	3,500	3,550	403	288	176	74	0	0	0
1,700	1,725	114	16	0	0	3,550	3,600	411	296	184	81	0	0	0
1,725	1,750	117	19	0	0	3,600	3,650	419	305	192	88	0	0	0
1,750	1,775	121	23	0	0	3,650	3,700	427	314	200	95	0	0	0
1,775	1,800	124	26	0	0	3,700	3,750	435	323	208	102	4	0	0
1,800	1,825	128	30	0	0	3,750	3,800	444	332	216	109	11	0	0
1,825	1,850	131	33	0	0	3,800	3,850	452	341	224	116	18	0	0
1,850	1,875	135	37	0	0	3,850	3,900	460	350	232	123	25	0	0
1,875	1,900	138	40	0	0	3,900	3,950	468	359	240	130	32	0	0
1,900	1,925	142	44	0	0	3,950	4,000	476	368	248	137	39	0	0
1,925	1,950	146	47	0	0	4,000	4,050	484	376	256	144	46	0	0
1,950	1,975	150	51	0	0	4,050	4,100	492	384	264	152	53	0	0
1,975	2,000	154	54	0	0	4,100	4,150	500	392	272	160	60	0	0
2,000	2,025	158	58	0	0	4,150	4,200	508	400	280	168	67	0	0
2,025	2,050	162	61	0	0	4,200	4,250	516	408	288	176	74	0	0
2,050	2,075	166	65	0	0	4,250	4,300	525	417	296	184	81	0	0
2,075	2,100	170	68	0	0	4,300	4,350	533	425	305	192	88	0	0
2,100	2,125	174	72	0	0	4,350	4,400	541	433	314	200	95	0	0
2,125	2,150	178	75	0	0	4,400	4,450	549	441	323	208	102	4	0
2,150	2,175	182	79	0	0	4,450	4,500	557	449	332	216	109	11	0
2,175	2,200	186	82	0	0	4,500	4,550	565	457	341	224	116	18	0
2,200	2,225	190	86	0	0	4,550	4,600	573	465	350	232	123	25	0
2,225	2,250	194	89	0	0	4,600	4,650	581	473	359	240	130	32	0
2,250	2,275	198	93	0	0	4,650	4,700	589	481	368	248	137	39	0
2,275	2,300	202	96	0	0	4,700	4,750	597	489	377	256	144	46	0
2,300	2,325	206	100	2	0	4,750	4,800	606	498	386	264	152	53	0
2,325	2,350	210	103	5	0	4,800	4,850	614	506	395	272	160	60	0
2,350	2,375	214	107	9	0	4,850	4,900	622	514	404	280	168	67	0
2,375	2,400	218	110	12	0	4,900	4,950	630	522	413	288	176	74	0
2,400	2,425	222	114	16	0	4,950	5,000	638	530	422	296	184	81	0
2,425	2,450	226	117	19	0									

“Table III—Married Persons Filing JOINT Returns
“Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—			If adjusted gross income is—		And the number of exemptions is—					
At least	But less than	2	3	4 or more	At least	But less than	2	3	4	5	6	7 or more
		The tax is—					The tax is—					
\$0	\$1,600	\$0	\$0	\$0	\$2,800	\$2,825	\$172	\$72	\$0	\$0	\$0	\$0
1,600	1,625	2	0	0	2,825	2,850	176	75	0	0	0	0
1,625	1,650	5	0	0	2,850	2,875	179	79	0	0	0	0
1,650	1,675	9	0	0	2,875	2,900	183	82	0	0	0	0
1,675	1,700	12	0	0	2,900	2,925	187	86	0	0	0	0
1,700	1,725	16	0	0	2,925	2,950	191	89	0	0	0	0
1,725	1,750	19	0	0	2,950	2,975	194	93	0	0	0	0
1,750	1,775	23	0	0	2,975	3,000	198	96	0	0	0	0
1,775	1,800	26	0	0	3,000	3,050	204	102	4	0	0	0
1,800	1,825	30	0	0	3,050	3,100	211	109	11	0	0	0
1,825	1,850	33	0	0	3,100	3,150	219	116	18	0	0	0
1,850	1,875	37	0	0	3,150	3,200	226	123	25	0	0	0
1,875	1,900	40	0	0	3,200	3,250	234	130	32	0	0	0
1,900	1,925	44	0	0	3,250	3,300	241	137	39	0	0	0
1,925	1,950	47	0	0	3,300	3,350	249	144	46	0	0	0
1,950	1,975	51	0	0	3,350	3,400	256	151	53	0	0	0
1,975	2,000	54	0	0	3,400	3,450	264	159	60	0	0	0
2,000	2,025	58	0	0	3,450	3,500	271	166	67	0	0	0
2,025	2,050	61	0	0	3,500	3,550	279	174	74	0	0	0
2,050	2,075	65	0	0	3,550	3,600	286	181	81	0	0	0
2,075	2,100	68	0	0	3,600	3,650	294	189	88	0	0	0
2,100	2,125	72	0	0	3,650	3,700	302	196	95	0	0	0
2,125	2,150	75	0	0	3,700	3,750	310	204	102	4	0	0
2,150	2,175	79	0	0	3,750	3,800	318	211	109	11	0	0
2,175	2,200	82	0	0	3,800	3,850	326	219	116	18	0	0
2,200	2,225	86	0	0	3,850	3,900	334	226	123	25	0	0
2,225	2,250	89	0	0	3,900	3,950	342	234	130	32	0	0
2,250	2,275	93	0	0	3,950	4,000	350	241	137	39	0	0
2,275	2,300	96	0	0	4,000	4,050	358	249	144	46	0	0
2,300	2,325	100	2	0	4,050	4,100	365	256	151	53	0	0
2,325	2,350	103	5	0	4,100	4,150	372	264	159	60	0	0
2,350	2,375	107	9	0	4,150	4,200	379	271	166	67	0	0
2,375	2,400	110	12	0	4,200	4,250	386	279	174	74	0	0
2,400	2,425	114	16	0	4,250	4,300	394	286	181	81	0	0
2,425	2,450	117	19	0	4,300	4,350	401	294	189	88	0	0
2,450	2,475	121	23	0	4,350	4,400	408	302	196	95	0	0
2,475	2,500	124	26	0	4,400	4,450	415	310	204	102	4	0
2,500	2,525	128	30	0	4,450	4,500	422	318	211	109	11	0
2,525	2,550	131	33	0	4,500	4,550	430	326	219	116	18	0
2,550	2,575	135	37	0	4,550	4,600	437	334	226	123	25	0
2,575	2,600	138	40	0	4,600	4,650	444	342	234	130	32	0
2,600	2,625	142	44	0	4,650	4,700	451	350	241	137	39	0
2,625	2,650	146	47	0	4,700	4,750	459	358	249	144	46	0
2,650	2,675	149	51	0	4,750	4,800	467	366	256	151	53	0
2,675	2,700	153	54	0	4,800	4,850	474	374	264	159	60	0
2,700	2,725	157	58	0	4,850	4,900	482	382	271	166	67	0
2,725	2,750	161	61	0	4,900	4,950	490	390	279	174	74	0
2,750	2,775	164	65	0	4,950	5,000	497	398	286	181	81	0
2,775	2,800	168	68	0								

"Table IV—Married Persons Filing SEPARATE Returns

"10 PERCENT STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$675	\$0	\$0	\$0	\$0	\$2,325	\$2,350	\$226	\$131	\$43	\$0	\$0	\$0	\$0	\$0
675	700	3	0	0	0	2,350	2,375	229	134	46	0	0	0	0	0
700	725	6	0	0	0	2,375	2,400	233	137	49	0	0	0	0	0
725	750	9	0	0	0	2,400	2,425	237	141	52	0	0	0	0	0
750	775	12	0	0	0	2,425	2,450	241	144	55	0	0	0	0	0
775	800	15	0	0	0	2,450	2,475	245	148	58	0	0	0	0	0
800	825	18	0	0	0	2,475	2,500	249	151	61	0	0	0	0	0
825	850	22	0	0	0	2,500	2,525	252	155	65	0	0	0	0	0
850	875	25	0	0	0	2,525	2,550	256	158	68	0	0	0	0	0
875	900	28	0	0	0	2,550	2,575	260	162	71	0	0	0	0	0
900	925	31	0	0	0	2,575	2,600	264	166	74	0	0	0	0	0
925	950	34	0	0	0	2,600	2,625	268	169	78	0	0	0	0	0
950	975	37	0	0	0	2,625	2,650	272	173	81	0	0	0	0	0
975	1,000	40	0	0	0	2,650	2,675	275	176	84	0	0	0	0	0
1,000	1,025	44	0	0	0	2,675	2,700	279	180	88	3	0	0	0	0
1,025	1,050	47	0	0	0	2,700	2,725	283	184	91	6	0	0	0	0
1,050	1,075	50	0	0	0	2,725	2,750	287	187	95	9	0	0	0	0
1,075	1,100	53	0	0	0	2,750	2,775	291	191	98	12	0	0	0	0
1,100	1,125	56	0	0	0	2,775	2,800	294	194	101	15	0	0	0	0
1,125	1,150	59	0	0	0	2,800	2,825	298	198	105	18	0	0	0	0
1,150	1,175	62	0	0	0	2,825	2,850	302	202	108	22	0	0	0	0
1,175	1,200	66	0	0	0	2,850	2,875	306	205	111	25	0	0	0	0
1,200	1,225	69	0	0	0	2,875	2,900	310	209	115	28	0	0	0	0
1,225	1,250	72	0	0	0	2,900	2,925	314	212	118	31	0	0	0	0
1,250	1,275	75	0	0	0	2,925	2,950	318	216	122	34	0	0	0	0
1,275	1,300	79	0	0	0	2,950	2,975	323	220	125	37	0	0	0	0
1,300	1,325	82	0	0	0	2,975	3,000	327	223	128	40	0	0	0	0
1,325	1,350	86	1	0	0	3,000	3,050	333	229	133	45	0	0	0	0
1,350	1,375	89	4	0	0	3,050	3,100	342	236	140	51	0	0	0	0
1,375	1,400	92	7	0	0	3,100	3,150	350	244	147	58	0	0	0	0
1,400	1,425	96	10	0	0	3,150	3,200	359	252	154	64	0	0	0	0
1,425	1,450	99	13	0	0	3,200	3,250	367	259	161	70	0	0	0	0
1,450	1,475	102	16	0	0	3,250	3,300	376	267	169	77	0	0	0	0
1,475	1,500	106	19	0	0	3,300	3,350	385	275	176	84	0	0	0	0
1,500	1,525	109	23	0	0	3,350	3,400	393	282	183	91	5	0	0	0
1,525	1,550	113	26	0	0	3,400	3,450	402	290	190	97	12	0	0	0
1,550	1,575	116	29	0	0	3,450	3,500	410	298	197	104	18	0	0	0
1,575	1,600	119	32	0	0	3,500	3,550	419	305	205	111	24	0	0	0
1,600	1,625	123	35	0	0	3,550	3,600	427	313	212	118	30	0	0	0
1,625	1,650	126	38	0	0	3,600	3,650	436	322	219	124	37	0	0	0
1,650	1,675	129	41	0	0	3,650	3,700	444	330	226	131	43	0	0	0
1,675	1,700	133	45	0	0	3,700	3,750	453	339	234	138	49	0	0	0
1,700	1,725	136	48	0	0	3,750	3,800	462	348	242	145	56	0	0	0
1,725	1,750	140	51	0	0	3,800	3,850	470	356	249	152	62	0	0	0
1,750	1,775	143	54	0	0	3,850	3,900	479	365	257	159	68	0	0	0
1,775	1,800	146	57	0	0	3,900	3,950	487	373	265	166	75	0	0	0
1,800	1,825	150	60	0	0	3,950	4,000	496	382	272	173	82	0	0	0
1,825	1,850	154	64	0	0	4,000	4,050	504	390	280	181	88	3	0	0
1,850	1,875	157	67	0	0	4,050	4,100	513	399	287	188	95	9	0	0
1,875	1,900	161	70	0	0	4,100	4,150	521	407	295	195	102	16	0	0
1,900	1,925	164	73	0	0	4,150	4,200	530	416	303	202	109	22	0	0
1,925	1,950	168	77	0	0	4,200	4,250	538	424	310	209	115	28	0	0
1,950	1,975	172	80	0	0	4,250	4,300	547	433	319	217	122	35	0	0
1,975	2,000	175	83	0	0	4,300	4,350	556	442	328	224	129	41	0	0
2,000	2,025	179	87	2	0	4,350	4,400	564	450	336	231	136	47	0	0
2,025	2,050	182	90	5	0	4,400	4,450	573	459	345	239	142	54	0	0
2,050	2,075	186	93	8	0	4,450	4,500	581	467	353	247	149	60	0	0
2,075	2,100	190	97	11	0	4,500	4,550	590	476	362	254	157	66	0	0
2,100	2,125	193	100	14	0	4,550	4,600	598	484	370	262	164	73	0	0
2,125	2,150	197	104	17	0	4,600	4,650	607	493	379	270	171	79	0	0
2,150	2,175	200	107	20	0	4,650	4,700	615	501	387	277	178	86	1	0
2,175	2,200	204	110	24	0	4,700	4,750	624	510	396	285	185	93	7	0
2,200	2,225	208	114	27	0	4,750	4,800	633	519	405	293	193	100	14	0
2,225	2,250	211	117	30	0	4,800	4,850	641	527	413	300	200	106	20	0
2,250	2,275	215	120	33	0	4,850	4,900	650	536	422	308	207	113	26	0
2,275	2,300	218	124	36	0	4,900	4,950	658	544	430	316	214	120	33	0
2,300	2,325	222	127	39	0	4,950	5,000	667	553	439	325	221	127	39	0

"Table V—Married Persons Filing SEPARATE Returns

"MINIMUM STANDARD DEDUCTION

"Taxable Years Beginning After December 31, 1964

If adjusted gross income is—		And the number of exemptions is—				If adjusted gross income is—		And the number of exemptions is—							
At least	But less than	1	2	3	4 or more	At least	But less than	1	2	3	4	5	6	7	8 or more
		The tax is—						The tax is—							
\$0	\$800	\$0	\$0	\$0	\$0	\$2,400	\$2,425	\$244	\$132	\$30	\$0	\$0	\$0	\$0	\$0
800	825	2	0	0	0	2,425	2,450	248	136	33	0	0	0	0	0
825	850	5	0	0	0	2,450	2,475	253	139	37	0	0	0	0	0
850	875	9	0	0	0	2,475	2,500	257	143	40	0	0	0	0	0
875	900	12	0	0	0	2,500	2,525	261	147	44	0	0	0	0	0
900	925	16	0	0	0	2,525	2,550	265	151	47	0	0	0	0	0
925	950	19	0	0	0	2,550	2,575	270	155	51	0	0	0	0	0
950	975	23	0	0	0	2,575	2,600	274	159	54	0	0	0	0	0
975	1,000	26	0	0	0	2,600	2,625	278	163	58	0	0	0	0	0
1,000	1,025	30	0	0	0	2,625	2,650	282	167	61	0	0	0	0	0
1,025	1,050	33	0	0	0	2,650	2,675	287	171	65	0	0	0	0	0
1,050	1,075	37	0	0	0	2,675	2,700	291	175	68	0	0	0	0	0
1,075	1,100	40	0	0	0	2,700	2,725	295	179	72	0	0	0	0	0
1,100	1,125	44	0	0	0	2,725	2,750	299	183	76	0	0	0	0	0
1,125	1,150	47	0	0	0	2,750	2,775	304	187	79	0	0	0	0	0
1,150	1,175	51	0	0	0	2,775	2,800	308	191	83	0	0	0	0	0
1,175	1,200	54	0	0	0	2,800	2,825	312	195	87	0	0	0	0	0
1,200	1,225	58	0	0	0	2,825	2,850	317	199	91	0	0	0	0	0
1,225	1,250	61	0	0	0	2,850	2,875	322	203	94	0	0	0	0	0
1,250	1,275	65	0	0	0	2,875	2,900	327	207	98	0	0	0	0	0
1,275	1,300	68	0	0	0	2,900	2,925	331	211	102	2	0	0	0	0
1,300	1,325	72	0	0	0	2,925	2,950	336	215	106	5	0	0	0	0
1,325	1,350	76	0	0	0	2,950	2,975	341	219	109	9	0	0	0	0
1,350	1,375	79	0	0	0	2,975	3,000	346	223	113	12	0	0	0	0
1,375	1,400	83	0	0	0	3,000	3,050	353	229	119	18	0	0	0	0
1,400	1,425	87	0	0	0	3,050	3,100	362	238	126	25	0	0	0	0
1,425	1,450	91	0	0	0	3,100	3,150	372	246	134	32	0	0	0	0
1,450	1,475	94	0	0	0	3,150	3,200	381	255	141	39	0	0	0	0
1,475	1,500	98	0	0	0	3,200	3,250	391	263	149	46	0	0	0	0
1,500	1,525	102	2	0	0	3,250	3,300	400	272	157	53	0	0	0	0
1,525	1,550	106	5	0	0	3,300	3,350	410	280	165	60	0	0	0	0
1,550	1,575	109	9	0	0	3,350	3,400	419	289	173	67	0	0	0	0
1,575	1,600	113	12	0	0	3,400	3,450	429	297	181	74	0	0	0	0
1,600	1,625	117	16	0	0	3,450	3,500	438	306	189	81	0	0	0	0
1,625	1,650	121	19	0	0	3,500	3,550	448	315	197	89	4	0	0	0
1,650	1,675	124	23	0	0	3,550	3,600	457	324	205	96	11	0	0	0
1,675	1,700	128	26	0	0	3,600	3,650	467	334	213	104	18	0	0	0
1,700	1,725	132	30	0	0	3,650	3,700	476	343	221	111	25	0	0	0
1,725	1,750	136	33	0	0	3,700	3,750	486	353	229	119	32	0	0	0
1,750	1,775	139	37	0	0	3,750	3,800	495	362	238	126	39	0	0	0
1,775	1,800	143	40	0	0	3,800	3,850	505	372	246	134	46	0	0	0
1,800	1,825	147	44	0	0	3,850	3,900	514	381	255	141	53	0	0	0
1,825	1,850	151	47	0	0	3,900	3,950	524	391	263	149	60	0	0	0
1,850	1,875	155	51	0	0	3,950	4,000	533	400	272	157	67	0	0	0
1,875	1,900	159	54	0	0	4,000	4,050	543	410	280	165	74	0	0	0
1,900	1,925	163	58	0	0	4,050	4,100	552	419	289	173	81	0	0	0
1,925	1,950	167	61	0	0	4,100	4,150	562	429	297	181	89	4	0	0
1,950	1,975	171	65	0	0	4,150	4,200	571	438	306	189	96	11	0	0
1,975	2,000	175	68	0	0	4,200	4,250	581	448	315	197	104	18	0	0
2,000	2,025	179	72	0	0	4,250	4,300	590	457	324	205	111	25	0	0
2,025	2,050	183	76	0	0	4,300	4,350	600	467	334	213	119	32	0	0
2,050	2,075	187	79	0	0	4,350	4,400	609	476	343	221	126	39	0	0
2,075	2,100	191	83	0	0	4,400	4,450	619	486	353	229	134	46	0	0
2,100	2,125	195	87	0	0	4,450	4,500	628	495	362	238	141	53	0	0
2,125	2,150	199	91	0	0	4,500	4,550	638	505	372	246	149	60	0	0
2,150	2,175	203	94	0	0	4,550	4,600	647	514	381	255	157	67	0	0
2,175	2,200	207	98	0	0	4,600	4,650	657	524	391	263	165	74	0	0
2,200	2,225	211	102	2	0	4,650	4,700	666	533	400	272	173	81	0	0
2,225	2,250	215	106	5	0	4,700	4,750	676	543	410	280	181	89	4	0
2,250	2,275	219	109	9	0	4,750	4,800	685	552	419	289	189	96	11	0
2,275	2,300	223	113	12	0	4,800	4,850	696	562	429	297	197	104	18	0
2,300	2,325	227	117	16	0	4,850	4,900	707	571	438	306	205	111	25	0
2,325	2,350	231	121	19	0	4,900	4,950	718	581	448	315	213	119	32	0
2,350	2,375	236	124	23	0	4,950	5,000	729	590	457	324	221	126	39	0
2,375	2,400	240	128	26	0										0"

1 (b) RULES FOR OPTIONAL TAX.—

2 (1) HUSBAND OR WIFE FILING SEPARATE RE-
3 TURNS.—Subsection (c) of section 4 (relating to rules
4 for optional tax) is amended to read as follows:

5 “(c) HUSBAND OR WIFE FILING SEPARATE RE-
6 TURN.—

7 “(1) A husband or wife may not elect to pay the
8 optional tax imposed by section 3 if the tax of the other
9 spouse is determined under section 1 on the basis of tax-
10 able income computed without regard to the standard
11 deduction.

12 “(2) Except as otherwise provided in this subsec-
13 tion, in the case of a husband or wife filing a separate
14 return the tax imposed by section 3 shall be—

15 “(A) for taxable years beginning in 1964, the
16 lesser of the tax shown in Table IV or Table V of
17 section 3 (a), and

18 “(B) for taxable years beginning after Decem-
19 ber 31, 1964, the lesser of the tax shown in Table
20 IV or Table V of section 3 (b).

21 “(3) Neither Table V of section 3 (a) nor Table V
22 of section 3 (b) shall apply in the case of a husband

1 or wife filing a separate return if the tax or the other
2 spouse is determined with regard to the 10-percent
3 standard deduction; except that an individual described
4 in section 141 (d) (2) may elect (under regulations
5 prescribed by the Secretary or his delegate) —

6 “(A) to pay the tax shown in Table V of
7 section 3 (a) in lieu of the tax shown in Table IV
8 of section 3 (a), and

9 “(B) to pay the tax shown in Table V of
10 section 3 (b) in lieu of the tax shown in Table IV
11 of section 3 (b).

12 For purposes of this title, an election under the pre-
13 ceding sentence shall be treated as an election made
14 under section 141 (d) (2).

15 “(4) For purposes of this subsection, determination
16 of marital status shall be made under section 143.”

17 (2) AMENDMENT OF SECTION 6014.—Section
18 6014 (a) (relating to income tax return—tax not com-
19 puted by taxpayer) is amended by adding at the end
20 thereof the following new sentence: “In the case of a
21 married individual filing a separate return and electing
22 the benefits of this subsection, neither Table V in section
23 3 (a) nor Table V in section 3 (b) shall apply.”

1 **(3) TECHNICAL AMENDMENTS.—**

2 (A) Subsection (a) of section 4 (relating to
3 rules for optional tax) is amended by striking out
4 “table” and inserting in lieu thereof “tables”.

5 (B) Section 4 (f) (relating to cross references)
6 is amended by adding at the end thereof the follow-
7 ing new paragraph:

 “(4) For nonapplicability of Table V in section 3(a)
and Table V in section 3(b) in case where tax is not com-
puted by taxpayer, see section 6014(a).”

8 (c) **EFFECTIVE DATE.**—Except for purposes of section
9 21 of the Internal Revenue Code of 1954 (relating to effect
10 of changes in rates during a taxable year), the amendments
11 made by this section shall apply to taxable years beginning
12 after December 31, 1963.

13 **SEC. 302. INCOME TAX COLLECTED AT SOURCE.**

14 ~~(a) PERCENTAGE METHOD OF WITHHOLDING.~~—Sub-
15 section ~~(a)~~ of section 3402 (relating to requirement of with-
16 holding) is amended to read as follows:

17 ~~“(a) REQUIREMENT OF WITHHOLDING.~~—Every em-
18 ployer making payment of wages shall deduct and withhold
19 upon such wages (except as provided in subsection ~~(j)~~) a
20 tax equal to the following percentage of the amount by
21 which the wages exceed the number of withholding exemp-

1 tions claimed, multiplied by the amount of one such exemp-
 2 tion as shown in subsection ~~(b)(1)~~:

3 ~~“(1) 15 percent in the case of wages paid during~~
 4 the calendar year 1964, and

5 ~~“(2) 14 percent in the case of wages paid after~~
 6 December 31, 1964.”

7 (a) *PERCENTAGE METHOD OF WITHHOLDING.*—Sub-
 8 section (a) of section 3402 (relating to requirement of with-
 9 holding) is amended by striking out “18 percent” and insert-
 10 ing in lieu thereof “14 percent”.

11 ~~(b) WAGE BRACKET WITHHOLDING.~~—Paragraph ~~(1)~~
 12 of section 3402(c) ~~(relating to wage bracket withholding)~~
 13 is amended to read as follows:

14 ~~“(1)(A) WAGES PAID DURING CALENDAR YEAR~~
 15 1964.—At the election of the employer with respect to
 16 any employee, the employer shall deduct and withhold
 17 upon the wages paid to such employee during the cal-
 18 endar year 1964 a tax determined in accordance with
 19 the following tables, which shall be in lieu of the tax
 20 required to be deducted and withheld under subsection
 21 ~~(a)~~:

2473

"If the payroll period with respect to an employee is biweekly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$26	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$26	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$26	\$28	4.40	.50	0	0	0	0	0	0	0	0	0
\$28	\$30	4.70	.80	0	0	0	0	0	0	0	0	0
\$30	\$32	5.00	1.10	0	0	0	0	0	0	0	0	0
\$32	\$34	5.30	1.40	0	0	0	0	0	0	0	0	0
\$34	\$36	5.60	1.70	0	0	0	0	0	0	0	0	0
\$36	\$38	5.90	2.00	0	0	0	0	0	0	0	0	0
\$38	\$40	6.20	2.30	0	0	0	0	0	0	0	0	0
\$40	\$42	6.50	2.60	0	0	0	0	0	0	0	0	0
\$42	\$44	6.80	2.90	0	0	0	0	0	0	0	0	0
\$44	\$46	7.10	3.20	0	0	0	0	0	0	0	0	0
\$46	\$48	7.40	3.50	0	0	0	0	0	0	0	0	0
\$48	\$50	7.70	3.80	0	0	0	0	0	0	0	0	0
\$50	\$52	8.00	4.10	.30	0	0	0	0	0	0	0	0
\$52	\$54	8.30	4.40	.60	0	0	0	0	0	0	0	0
\$54	\$56	8.60	4.70	.90	0	0	0	0	0	0	0	0
\$56	\$58	8.90	5.00	1.20	0	0	0	0	0	0	0	0
\$58	\$60	9.20	5.30	1.50	0	0	0	0	0	0	0	0
\$60	\$62	9.50	5.60	1.80	0	0	0	0	0	0	0	0
\$62	\$64	9.80	5.90	2.10	0	0	0	0	0	0	0	0
\$64	\$66	10.10	6.20	2.40	0	0	0	0	0	0	0	0
\$66	\$68	10.40	6.50	2.70	0	0	0	0	0	0	0	0
\$68	\$70	10.70	6.80	3.00	0	0	0	0	0	0	0	0
\$70	\$72	11.00	7.10	3.30	0	0	0	0	0	0	0	0
\$72	\$74	11.30	7.40	3.60	0	0	0	0	0	0	0	0
\$74	\$76	11.60	7.70	3.90	0	0	0	0	0	0	0	0
\$76	\$78	11.90	8.00	4.20	.30	0	0	0	0	0	0	0
\$78	\$80	12.20	8.30	4.50	.60	0	0	0	0	0	0	0
\$80	\$82	12.50	8.60	4.80	.90	0	0	0	0	0	0	0
\$82	\$84	12.80	8.90	5.10	1.20	0	0	0	0	0	0	0
\$84	\$86	13.10	9.20	5.40	1.50	0	0	0	0	0	0	0
\$86	\$88	13.40	9.50	5.70	1.80	0	0	0	0	0	0	0
\$88	\$90	13.70	9.80	6.00	2.10	0	0	0	0	0	0	0
\$90	\$92	14.00	10.10	6.30	2.40	0	0	0	0	0	0	0
\$92	\$94	14.30	10.40	6.60	2.70	0	0	0	0	0	0	0
\$94	\$96	14.60	10.70	6.90	3.00	0	0	0	0	0	0	0
\$96	\$98	14.90	11.00	7.20	3.30	0	0	0	0	0	0	0
\$98	\$100	15.20	11.30	7.50	3.60	0	0	0	0	0	0	0
\$100	\$102	15.50	11.60	7.80	3.90	.10	0	0	0	0	0	0
\$102	\$104	15.80	11.90	8.10	4.20	.40	0	0	0	0	0	0
\$104	\$106	16.10	12.20	8.40	4.50	.70	0	0	0	0	0	0
\$106	\$108	16.40	12.50	8.70	4.80	1.00	0	0	0	0	0	0
\$108	\$110	16.70	12.80	9.00	5.10	1.30	0	0	0	0	0	0
\$110	\$112	17.00	13.10	9.30	5.40	1.60	0	0	0	0	0	0
\$112	\$114	17.30	13.40	9.60	5.70	1.90	0	0	0	0	0	0
\$114	\$116	17.60	13.70	9.90	6.00	2.20	0	0	0	0	0	0
\$116	\$118	17.90	14.00	10.20	6.30	2.50	0	0	0	0	0	0
\$118	\$120	18.30	14.50	10.60	6.80	2.90	0	0	0	0	0	0
\$120	\$124	18.90	15.10	11.20	7.40	3.50	0	0	0	0	0	0
\$124	\$128	19.50	15.70	11.80	8.00	4.10	.30	0	0	0	0	0
\$128	\$132	20.10	16.30	12.40	8.60	4.70	.90	0	0	0	0	0
\$132	\$136	20.70	16.90	13.00	9.20	5.30	1.50	0	0	0	0	0
\$136	\$140	21.30	17.50	13.60	9.80	5.90	2.10	0	0	0	0	0
\$140	\$144	21.90	18.10	14.20	10.40	6.50	2.70	0	0	0	0	0
\$144	\$148	22.50	18.70	14.80	11.00	7.10	3.30	0	0	0	0	0
\$148	\$152	23.10	19.30	15.40	11.60	7.70	3.90	0	0	0	0	0
\$152	\$156	23.70	19.90	16.00	12.20	8.30	4.50	.60	0	0	0	0
\$156	\$160	24.30	20.50	16.60	12.80	8.90	5.10	1.20	0	0	0	0
\$160	\$164	24.90	21.10	17.20	13.40	9.50	5.70	1.80	0	0	0	0
\$164	\$168	25.50	21.70	17.80	14.00	10.10	6.30	2.40	0	0	0	0
\$168	\$172	26.10	22.30	18.40	14.60	10.70	6.90	3.00	0	0	0	0
\$172	\$176	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0	0	0	0
\$176	\$180	27.30	23.50	19.60	15.80	11.90	8.10	4.20	.40	0	0	0
\$180	\$184	27.90	24.10	20.20	16.40	12.50	8.70	4.80	1.00	0	0	0
\$184	\$188	28.50	24.70	20.80	17.00	13.10	9.30	5.40	1.60	0	0	0
\$188	\$192	29.10	25.30	21.40	17.60	13.70	9.90	6.00	2.20	0	0	0
\$192	\$196	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80	0	0	0
\$196	\$200	30.30	26.50	22.60	18.80	14.90	11.10	7.20	3.40	0	0	0
\$200	\$210	32.30	28.40	24.60	20.70	16.90	13.00	9.20	5.30	1.50	0	0
\$210	\$220	33.80	29.90	26.10	22.20	18.40	14.50	10.70	6.80	3.00	0	0
\$220	\$230	35.30	31.40	27.60	23.70	19.90	16.00	12.20	8.30	4.50	.60	0
\$230	\$240	36.80	32.90	29.10	25.20	21.40	17.50	13.70	9.80	6.00	2.10	0
\$240	\$250	38.30	34.40	30.60	26.70	22.90	19.00	15.20	11.30	7.50	3.60	0
\$250	\$260	39.80	35.90	32.10	28.20	24.40	20.50	16.70	12.80	9.00	5.10	1.30
\$260	\$270	41.30	37.40	33.60	29.70	25.90	22.00	18.20	14.30	10.50	6.60	2.80
\$270	\$280	42.80	38.90	35.10	31.20	27.40	23.50	19.70	15.80	12.00	8.10	4.30
\$280	\$290	44.30	40.40	36.60	32.70	28.90	25.00	21.20	17.30	13.50	9.60	5.80
\$290	\$300	46.50	42.70	38.80	35.00	31.10	27.30	23.40	19.60	15.70	11.90	8.00
\$300	\$320	49.60	45.70	41.80	38.00	34.10	30.30	26.40	22.60	18.70	14.90	11.00
\$320	\$340	52.60	48.70	44.80	41.00	37.10	33.30	29.40	25.60	21.70	17.90	14.00
\$340	\$360	55.60	51.70	47.80	44.00	40.10	36.30	32.40	28.60	24.70	20.90	17.00
\$360	\$380	58.60	54.70	50.80	47.00	43.10	39.30	35.40	31.60	27.70	23.90	20.00
\$380	\$400											
15 percent of the excess over \$400 plus—												
\$400 and over		60.00	56.20	52.30	48.50	44.60	40.80	36.90	33.10	29.20	25.40	21.50

"If the payroll period with respect to an employee is semimonthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$28	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28	\$30	\$4.40	.20	0	0	0	0	0	0	0	0	0
\$30	\$32	4.70	.50	0	0	0	0	0	0	0	0	0
\$32	\$34	5.00	.80	0	0	0	0	0	0	0	0	0
\$34	\$36	5.30	1.10	0	0	0	0	0	0	0	0	0
\$36	\$38	5.60	1.40	0	0	0	0	0	0	0	0	0
\$38	\$40	5.90	1.70	0	0	0	0	0	0	0	0	0
\$40	\$42	6.20	2.00	0	0	0	0	0	0	0	0	0
\$42	\$44	6.50	2.30	0	0	0	0	0	0	0	0	0
\$44	\$46	6.80	2.60	0	0	0	0	0	0	0	0	0
\$46	\$48	7.10	2.90	0	0	0	0	0	0	0	0	0
\$48	\$50	7.40	3.20	0	0	0	0	0	0	0	0	0
\$50	\$52	7.70	3.50	0	0	0	0	0	0	0	0	0
\$52	\$54	8.00	3.80	0	0	0	0	0	0	0	0	0
\$54	\$56	8.30	4.10	0	0	0	0	0	0	0	0	0
\$56	\$58	8.60	4.40	.20	0	0	0	0	0	0	0	0
\$58	\$60	8.90	4.70	.50	0	0	0	0	0	0	0	0
\$60	\$62	9.20	5.00	.80	0	0	0	0	0	0	0	0
\$62	\$64	9.50	5.30	1.10	0	0	0	0	0	0	0	0
\$64	\$66	9.80	5.60	1.40	0	0	0	0	0	0	0	0
\$66	\$68	10.10	5.90	1.70	0	0	0	0	0	0	0	0
\$68	\$70	10.40	6.20	2.00	0	0	0	0	0	0	0	0
\$70	\$72	10.70	6.50	2.30	0	0	0	0	0	0	0	0
\$72	\$74	11.00	6.80	2.60	0	0	0	0	0	0	0	0
\$74	\$76	11.30	7.10	2.90	0	0	0	0	0	0	0	0
\$76	\$78	11.60	7.40	3.20	0	0	0	0	0	0	0	0
\$78	\$80	11.90	7.70	3.50	0	0	0	0	0	0	0	0
\$80	\$82	12.20	8.00	3.80	0	0	0	0	0	0	0	0
\$82	\$84	12.50	8.30	4.10	0	0	0	0	0	0	0	0
\$84	\$86	12.80	8.60	4.40	.30	0	0	0	0	0	0	0
\$86	\$88	13.10	8.90	4.70	.60	0	0	0	0	0	0	0
\$88	\$90	13.40	9.20	5.00	.90	0	0	0	0	0	0	0
\$90	\$92	13.70	9.50	5.30	1.20	0	0	0	0	0	0	0
\$92	\$94	14.00	9.80	5.60	1.50	0	0	0	0	0	0	0
\$94	\$96	14.30	10.10	5.90	1.80	0	0	0	0	0	0	0
\$96	\$98	14.60	10.40	6.20	2.10	0	0	0	0	0	0	0
\$98	\$100	14.90	10.70	6.50	2.40	0	0	0	0	0	0	0
\$100	\$102	15.20	11.00	6.80	2.70	0	0	0	0	0	0	0
\$102	\$104	15.50	11.30	7.10	3.00	0	0	0	0	0	0	0
\$104	\$106	15.80	11.60	7.40	3.30	0	0	0	0	0	0	0
\$106	\$108	16.10	11.90	7.70	3.60	0	0	0	0	0	0	0
\$108	\$110	16.40	12.20	8.00	3.90	0	0	0	0	0	0	0
\$110	\$112	16.70	12.50	8.30	4.20	0	0	0	0	0	0	0
\$112	\$114	17.00	12.80	8.60	4.50	.30	0	0	0	0	0	0
\$114	\$116	17.30	13.10	8.90	4.80	.60	0	0	0	0	0	0
\$116	\$118	17.60	13.40	9.20	5.10	.90	0	0	0	0	0	0
\$118	\$120	17.90	13.70	9.50	5.40	1.20	0	0	0	0	0	0
\$120	\$124	18.30	14.10	10.00	5.80	1.60	0	0	0	0	0	0
\$124	\$128	18.90	14.70	10.60	6.40	2.20	0	0	0	0	0	0
\$128	\$132	19.50	15.30	11.20	7.00	2.80	0	0	0	0	0	0
\$132	\$136	20.10	15.90	11.80	7.60	3.40	0	0	0	0	0	0
\$136	\$140	20.70	16.50	12.40	8.20	4.00	0	0	0	0	0	0
\$140	\$144	21.30	17.10	13.00	8.80	4.60	.50	0	0	0	0	0
\$144	\$148	21.90	17.70	13.60	9.40	5.20	1.10	0	0	0	0	0
\$148	\$152	22.50	18.30	14.20	10.00	5.80	1.70	0	0	0	0	0
\$152	\$156	23.10	18.90	14.80	10.60	6.40	2.30	0	0	0	0	0
\$156	\$160	23.70	19.50	15.40	11.20	7.00	2.90	0	0	0	0	0
\$160	\$164	24.30	20.10	16.00	11.80	7.60	3.50	0	0	0	0	0
\$164	\$168	24.90	20.70	16.60	12.40	8.20	4.10	0	0	0	0	0
\$168	\$172	25.50	21.30	17.20	13.00	8.80	4.70	.50	0	0	0	0
\$172	\$176	26.10	21.90	17.80	13.60	9.40	5.30	1.10	0	0	0	0
\$176	\$180	26.70	22.50	18.40	14.20	10.00	5.90	1.70	0	0	0	0
\$180	\$184	27.30	23.10	19.00	14.80	10.60	6.50	2.30	0	0	0	0
\$184	\$188	27.90	23.70	19.60	15.40	11.20	7.10	2.90	0	0	0	0
\$188	\$192	28.50	24.30	20.20	16.00	11.80	7.70	3.50	0	0	0	0
\$192	\$196	29.10	24.90	20.80	16.60	12.40	8.30	4.10	0	0	0	0
\$196	\$200	29.70	25.50	21.40	17.20	13.00	8.90	4.70	.50	0	0	0
\$200	\$210	30.80	26.60	22.40	18.30	14.10	9.90	5.80	1.60	0	0	0
\$210	\$220	32.30	28.10	23.90	19.80	15.60	11.40	7.30	3.10	0	0	0
\$220	\$230	33.80	29.60	25.40	21.30	17.10	12.90	8.80	4.60	.40	0	0
\$230	\$240	35.30	31.10	26.90	22.80	18.60	14.40	10.30	6.10	1.90	0	0
\$240	\$250	36.80	32.60	28.40	24.30	20.10	15.90	11.80	7.60	3.40	0	0
\$250	\$260	38.30	34.10	29.90	25.80	21.60	17.40	13.30	9.10	4.90	.80	0
\$260	\$270	39.80	35.60	31.40	27.30	23.10	18.90	14.80	10.60	6.40	2.30	0
\$270	\$280	41.30	37.10	32.90	28.80	24.60	20.40	16.30	12.10	7.90	3.80	0
\$280	\$290	42.80	38.60	34.40	30.30	26.10	21.90	17.80	13.60	9.40	5.30	1.10
\$290	\$300	44.30	40.10	35.90	31.80	27.60	23.40	19.30	15.10	10.90	6.80	2.60
\$300	\$320	46.50	42.30	38.20	34.00	29.80	25.70	21.50	17.30	13.20	9.00	4.80
\$320	\$340	49.50	45.30	41.20	37.00	32.80	28.70	24.50	20.30	16.20	12.00	7.80
\$340	\$360	52.50	48.30	44.20	40.00	35.80	31.70	27.50	23.30	19.20	15.00	10.80
\$360	\$380	55.50	51.30	47.20	43.00	38.80	34.70	30.50	26.30	22.20	18.00	13.80
\$380	\$400	58.50	54.30	50.20	46.00	41.80	37.70	33.50	29.30	25.20	21.00	16.80
\$400	\$420	61.50	57.30	53.20	49.00	44.80	40.70	36.50	32.30	28.20	24.00	19.80
\$420	\$440	64.50	60.30	56.20	52.00	47.80	43.70	39.50	35.30	31.20	27.00	22.80
\$440	\$460	67.50	63.30	59.20	55.00	50.80	46.70	42.50	38.30	34.20	30.00	25.80
\$460	\$480	70.50	66.30	62.20	58.00	53.80	49.70	45.50	41.30	37.20	33.00	28.80
\$480	\$500	73.50	69.30	65.20	61.00	56.80	52.70	48.50	44.30	40.20	36.00	31.80
15 percent of the excess over \$500 plus—												
\$500 and over		75.00	70.80	66.70	62.50	58.30	54.20	50.00	45.80	41.70	37.50	33.30

"If the payroll period with respect to an employee is monthly

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$56.....	15% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$56.....	\$60.....	\$8.70	.40	0	0	0	0	0	0	0	0	0
\$60.....	\$64.....	9.30	1.00	0	0	0	0	0	0	0	0	0
\$64.....	\$68.....	9.90	1.60	0	0	0	0	0	0	0	0	0
\$68.....	\$72.....	10.50	2.20	0	0	0	0	0	0	0	0	0
\$72.....	\$76.....	11.10	2.80	0	0	0	0	0	0	0	0	0
\$76.....	\$80.....	11.70	3.40	0	0	0	0	0	0	0	0	0
\$80.....	\$84.....	12.30	4.00	0	0	0	0	0	0	0	0	0
\$84.....	\$88.....	12.90	4.60	0	0	0	0	0	0	0	0	0
\$88.....	\$92.....	13.50	5.20	0	0	0	0	0	0	0	0	0
\$92.....	\$96.....	14.10	5.80	0	0	0	0	0	0	0	0	0
\$96.....	\$100.....	14.70	6.40	0	0	0	0	0	0	0	0	0
\$100.....	\$104.....	15.30	7.00	0	0	0	0	0	0	0	0	0
\$104.....	\$108.....	15.90	7.60	0	0	0	0	0	0	0	0	0
\$108.....	\$112.....	16.50	8.20	0	0	0	0	0	0	0	0	0
\$112.....	\$116.....	17.10	8.80	.40	0	0	0	0	0	0	0	0
\$116.....	\$120.....	17.70	9.40	1.00	0	0	0	0	0	0	0	0
\$120.....	\$124.....	18.30	10.00	1.60	0	0	0	0	0	0	0	0
\$124.....	\$128.....	18.90	10.60	2.20	0	0	0	0	0	0	0	0
\$128.....	\$132.....	19.50	11.20	2.80	0	0	0	0	0	0	0	0
\$132.....	\$136.....	20.10	11.80	3.40	0	0	0	0	0	0	0	0
\$136.....	\$140.....	20.70	12.40	4.00	0	0	0	0	0	0	0	0
\$140.....	\$144.....	21.30	13.00	4.60	0	0	0	0	0	0	0	0
\$144.....	\$148.....	21.90	13.60	5.20	0	0	0	0	0	0	0	0
\$148.....	\$152.....	22.50	14.20	5.80	0	0	0	0	0	0	0	0
\$152.....	\$156.....	23.10	14.80	6.40	0	0	0	0	0	0	0	0
\$156.....	\$160.....	23.70	15.40	7.00	0	0	0	0	0	0	0	0
\$160.....	\$164.....	24.30	16.00	7.60	0	0	0	0	0	0	0	0
\$164.....	\$168.....	24.90	16.60	8.20	0	0	0	0	0	0	0	0
\$168.....	\$172.....	25.50	17.20	8.80	.50	0	0	0	0	0	0	0
\$172.....	\$176.....	26.10	17.80	9.40	1.10	0	0	0	0	0	0	0
\$176.....	\$180.....	26.70	18.40	10.00	1.70	0	0	0	0	0	0	0
\$180.....	\$184.....	27.30	19.00	10.60	2.30	0	0	0	0	0	0	0
\$184.....	\$188.....	27.90	19.60	11.20	2.90	0	0	0	0	0	0	0
\$188.....	\$192.....	28.50	20.20	11.80	3.50	0	0	0	0	0	0	0
\$192.....	\$196.....	29.10	20.80	12.40	4.10	0	0	0	0	0	0	0
\$196.....	\$200.....	29.70	21.40	13.00	4.70	0	0	0	0	0	0	0
\$200.....	\$204.....	30.30	22.00	13.60	5.30	0	0	0	0	0	0	0
\$204.....	\$208.....	30.90	22.60	14.20	5.90	0	0	0	0	0	0	0
\$208.....	\$212.....	31.50	23.20	14.80	6.50	0	0	0	0	0	0	0
\$212.....	\$216.....	32.10	23.80	15.40	7.10	0	0	0	0	0	0	0
\$216.....	\$220.....	32.70	24.40	16.00	7.70	0	0	0	0	0	0	0
\$220.....	\$224.....	33.30	25.00	16.60	8.30	0	0	0	0	0	0	0
\$224.....	\$228.....	33.90	25.60	17.20	8.90	.60	0	0	0	0	0	0
\$228.....	\$232.....	34.50	26.20	17.80	9.50	1.20	0	0	0	0	0	0
\$232.....	\$236.....	35.10	26.80	18.40	10.10	1.80	0	0	0	0	0	0
\$236.....	\$240.....	35.70	27.40	19.00	10.70	2.40	0	0	0	0	0	0
\$240.....	\$248.....	36.60	28.30	19.90	11.60	3.30	0	0	0	0	0	0
\$248.....	\$256.....	37.80	29.50	21.10	12.80	4.50	0	0	0	0	0	0
\$256.....	\$264.....	39.00	30.70	22.30	14.00	5.70	0	0	0	0	0	0
\$264.....	\$272.....	40.20	31.90	23.50	15.20	6.90	0	0	0	0	0	0
\$272.....	\$280.....	41.40	33.10	24.70	16.40	8.10	0	0	0	0	0	0
\$280.....	\$288.....	42.60	34.30	25.90	17.60	9.30	.90	0	0	0	0	0
\$288.....	\$296.....	43.80	35.50	27.10	18.80	10.50	2.10	0	0	0	0	0
\$296.....	\$304.....	45.00	36.70	28.30	20.00	11.70	3.30	0	0	0	0	0
\$304.....	\$312.....	46.20	37.90	29.50	21.20	12.90	4.50	0	0	0	0	0
\$312.....	\$320.....	47.40	39.10	30.70	22.40	14.10	5.70	0	0	0	0	0
\$320.....	\$328.....	48.60	40.30	31.90	23.60	15.30	6.90	0	0	0	0	0
\$328.....	\$336.....	49.80	41.50	33.10	24.80	16.50	8.10	0	0	0	0	0
\$336.....	\$344.....	51.00	42.70	34.30	26.00	17.70	9.30	1.00	0	0	0	0
\$344.....	\$352.....	52.20	43.90	35.50	27.20	18.90	10.50	2.20	0	0	0	0
\$352.....	\$360.....	53.40	45.10	36.70	28.40	20.10	11.70	3.40	0	0	0	0
\$360.....	\$368.....	54.60	46.30	37.90	29.60	21.30	12.90	4.60	0	0	0	0
\$368.....	\$376.....	55.80	47.50	39.10	30.80	22.50	14.10	5.80	0	0	0	0
\$376.....	\$384.....	57.00	48.70	40.30	32.00	23.70	15.30	7.00	0	0	0	0
\$384.....	\$392.....	58.20	49.90	41.50	33.20	24.90	16.50	8.20	0	0	0	0
\$392.....	\$400.....	59.40	51.10	42.70	34.40	26.10	17.70	9.40	1.10	0	0	0
\$400.....	\$420.....	61.50	53.20	44.80	36.50	28.20	19.80	11.50	3.20	0	0	0
\$420.....	\$440.....	64.50	56.20	47.80	39.50	31.20	22.80	14.50	6.20	0	0	0
\$440.....	\$460.....	67.50	59.20	50.80	42.50	34.20	25.80	17.50	9.20	.80	0	0
\$460.....	\$480.....	70.50	62.20	53.80	45.50	37.20	28.80	20.50	12.20	3.80	0	0
\$480.....	\$500.....	73.50	65.20	56.80	48.50	40.20	31.80	23.50	15.20	6.80	0	0
\$500.....	\$520.....	76.50	68.20	59.80	51.50	43.20	34.80	26.50	18.20	9.80	1.50	0
\$520.....	\$540.....	79.50	71.20	62.80	54.50	46.20	37.80	29.50	21.20	12.80	4.50	0
\$540.....	\$560.....	82.50	74.20	65.80	57.50	49.20	40.80	32.50	24.20	15.80	7.50	0
\$560.....	\$580.....	85.50	77.20	68.80	60.50	52.20	43.80	35.50	27.20	18.80	10.50	2.20
\$580.....	\$600.....	88.50	80.20	71.80	63.50	55.20	46.80	38.50	30.20	21.80	13.50	5.20
\$600.....	\$640.....	93.00	84.70	76.30	68.00	59.70	51.30	43.00	34.70	26.30	18.00	9.70
\$640.....	\$680.....	99.00	90.70	82.30	74.00	65.70	57.30	49.00	40.70	32.30	24.00	15.70
\$680.....	\$720.....	105.00	96.70	88.30	80.00	71.70	63.30	55.00	46.70	38.30	30.00	21.70
\$720.....	\$760.....	111.00	102.70	94.30	86.00	77.70	69.30	61.00	52.70	44.30	36.00	27.70
\$760.....	\$800.....	117.00	108.70	100.30	92.00	83.70	75.30	67.00	58.70	50.30	42.00	33.70
\$800.....	\$840.....	123.00	114.70	106.30	98.00	89.70	81.30	73.00	64.70	56.30	48.00	39.70
\$840.....	\$880.....	129.00	120.70	112.30	104.00	95.70	87.30	79.00	70.70	62.30	54.00	45.70
\$880.....	\$920.....	135.00	126.70	118.30	110.00	101.70	93.30	85.00	76.70	68.30	60.00	51.70
\$920.....	\$960.....	141.00	132.70	124.30	116.00	107.70	99.30	91.00	82.70	74.30	66.00	57.70
\$960.....	\$1,000.....	147.00	138.70	130.30	122.00	113.70	105.30	97.00	88.70	80.30	72.00	63.70
15 percent of the excess over \$1,000 plus—												
\$1,000 and over.....		150.00	141.70	133.30	125.00	116.70	108.30	100.00	91.70	83.30	75.00	66.70

2477

1 ~~“(B) WAGES PAID AFTER DECEMBER 31, 1964.—~~

2 At the election of the employer with respect to any
3 employee, the employer shall deduct and withhold upon
4 the wages paid to such employee after December 31,
5 1964, a tax determined in accordance with the follow-
6 ing tables, which shall be in lieu of the tax required to be
7 deducted and withheld under subsection (a):

8 (b) *WAGE BRACKET WITHHOLDING.—Paragraph (1)*
9 *of section 3402(c) (relating to wage bracket withholding) is*
10 *amended to read as follows:*

11 “(1) At the election of the employer with respect to
12 any employee, the employer shall deduct and withhold
13 upon the wages paid to such employee a tax determined
14 in accordance with the following tables, which shall be
15 in lieu of the tax required to be deducted and withheld
16 under subsection (a):

"If the payroll period with respect to an employee is weekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$13.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$13.....	\$14.....	\$1.90	.10	0	0	0	0	0	0	0	0	0
\$14.....	\$15.....	2.00	.20	0	0	0	0	0	0	0	0	0
\$15.....	\$16.....	2.20	.40	0	0	0	0	0	0	0	0	0
\$16.....	\$17.....	2.30	.50	0	0	0	0	0	0	0	0	0
\$17.....	\$18.....	2.50	.70	0	0	0	0	0	0	0	0	0
\$18.....	\$19.....	2.60	.80	0	0	0	0	0	0	0	0	0
\$19.....	\$20.....	2.70	.90	0	0	0	0	0	0	0	0	0
\$20.....	\$21.....	2.90	1.10	0	0	0	0	0	0	0	0	0
\$21.....	\$22.....	3.00	1.20	0	0	0	0	0	0	0	0	0
\$22.....	\$23.....	3.20	1.40	0	0	0	0	0	0	0	0	0
\$23.....	\$24.....	3.30	1.60	0	0	0	0	0	0	0	0	0
\$24.....	\$25.....	3.40	1.60	0	0	0	0	0	0	0	0	0
\$25.....	\$26.....	3.60	1.80	0	0	0	0	0	0	0	0	0
\$26.....	\$27.....	3.70	1.90	.10	0	0	0	0	0	0	0	0
\$27.....	\$28.....	3.90	2.10	.30	0	0	0	0	0	0	0	0
\$28.....	\$29.....	4.00	2.20	.40	0	0	0	0	0	0	0	0
\$29.....	\$30.....	4.10	2.30	.50	0	0	0	0	0	0	0	0
\$30.....	\$31.....	4.30	2.50	.70	0	0	0	0	0	0	0	0
\$31.....	\$32.....	4.40	2.60	.80	0	0	0	0	0	0	0	0
\$32.....	\$33.....	4.60	2.80	1.00	0	0	0	0	0	0	0	0
\$33.....	\$34.....	4.70	2.90	1.10	0	0	0	0	0	0	0	0
\$34.....	\$35.....	4.80	3.00	1.20	0	0	0	0	0	0	0	0
\$35.....	\$36.....	5.00	3.20	1.40	0	0	0	0	0	0	0	0
\$36.....	\$37.....	5.10	3.30	1.60	0	0	0	0	0	0	0	0
\$37.....	\$38.....	5.30	3.50	1.70	0	0	0	0	0	0	0	0
\$38.....	\$39.....	5.40	3.60	1.80	0	0	0	0	0	0	0	0
\$39.....	\$40.....	5.60	3.70	1.90	.10	0	0	0	0	0	0	0
\$40.....	\$41.....	5.70	3.90	2.10	.30	0	0	0	0	0	0	0
\$41.....	\$42.....	5.80	4.00	2.20	.40	0	0	0	0	0	0	0
\$42.....	\$43.....	6.00	4.20	2.40	.60	0	0	0	0	0	0	0
\$43.....	\$44.....	6.10	4.30	2.50	.70	0	0	0	0	0	0	0
\$44.....	\$45.....	6.20	4.40	2.60	.80	0	0	0	0	0	0	0
\$45.....	\$46.....	6.40	4.60	2.80	1.00	0	0	0	0	0	0	0
\$46.....	\$47.....	6.50	4.70	2.90	1.10	0	0	0	0	0	0	0
\$47.....	\$48.....	6.70	4.90	3.10	1.30	0	0	0	0	0	0	0
\$48.....	\$49.....	6.80	5.00	3.20	1.40	0	0	0	0	0	0	0
\$49.....	\$50.....	6.90	5.10	3.30	1.50	0	0	0	0	0	0	0
\$50.....	\$51.....	7.10	5.30	3.50	1.70	0	0	0	0	0	0	0
\$51.....	\$52.....	7.20	5.40	3.60	1.80	0	0	0	0	0	0	0
\$52.....	\$53.....	7.40	5.60	3.80	2.00	.20	0	0	0	0	0	0
\$53.....	\$54.....	7.50	5.70	3.90	2.10	.30	0	0	0	0	0	0
\$54.....	\$55.....	7.60	5.80	4.00	2.20	.50	0	0	0	0	0	0
\$55.....	\$56.....	7.80	6.00	4.20	2.40	.60	0	0	0	0	0	0
\$56.....	\$57.....	7.90	6.10	4.30	2.50	.70	0	0	0	0	0	0
\$57.....	\$58.....	8.10	6.30	4.50	2.70	.90	0	0	0	0	0	0
\$58.....	\$59.....	8.20	6.40	4.60	2.80	1.00	0	0	0	0	0	0
\$59.....	\$60.....	8.30	6.50	4.70	2.90	1.20	0	0	0	0	0	0
\$60.....	\$62.....	8.50	6.70	5.00	3.20	1.40	0	0	0	0	0	0
\$62.....	\$64.....	8.80	7.00	5.20	3.40	1.60	0	0	0	0	0	0
\$64.....	\$66.....	9.10	7.30	5.50	3.70	1.90	.10	0	0	0	0	0
\$66.....	\$68.....	9.40	7.60	5.80	4.00	2.20	.40	0	0	0	0	0
\$68.....	\$70.....	9.70	7.90	6.10	4.30	2.50	.70	0	0	0	0	0
\$70.....	\$72.....	9.90	8.10	6.40	4.60	2.80	1.00	0	0	0	0	0
\$72.....	\$74.....	10.20	8.40	6.60	4.80	3.00	1.20	0	0	0	0	0
\$74.....	\$76.....	10.50	8.70	6.90	5.10	3.30	1.50	0	0	0	0	0
\$76.....	\$78.....	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0	0	0
\$78.....	\$80.....	11.10	9.30	7.50	5.70	3.90	2.10	.30	0	0	0	0
\$80.....	\$82.....	11.30	9.50	7.80	6.00	4.20	2.40	.60	0	0	0	0
\$82.....	\$84.....	11.60	9.80	8.00	6.20	4.40	2.60	.90	0	0	0	0
\$84.....	\$86.....	11.90	10.10	8.30	6.50	4.70	2.90	1.10	0	0	0	0
\$86.....	\$88.....	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0	0	0
\$88.....	\$90.....	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0	0	0	0
\$90.....	\$92.....	12.70	10.90	9.20	7.40	5.60	3.80	2.00	.20	0	0	0
\$92.....	\$94.....	13.00	11.20	9.40	7.60	5.80	4.00	2.30	.50	0	0	0
\$94.....	\$96.....	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0	0
\$96.....	\$98.....	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0	0	0
\$98.....	\$100.....	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30	0	0	0
\$100.....	\$105.....	14.40	12.60	10.80	9.00	7.20	5.40	3.60	1.80	0	0	0
\$105.....	\$110.....	15.10	13.30	11.50	9.70	7.90	6.10	4.30	2.50	.70	0	0
\$110.....	\$115.....	15.80	14.00	12.20	10.40	8.60	6.80	5.00	3.20	1.40	0	0
\$115.....	\$120.....	16.50	14.70	12.90	11.10	9.30	7.50	5.70	3.90	2.10	.30	0
\$120.....	\$125.....	17.20	15.40	13.60	11.80	10.00	8.20	6.40	4.60	2.80	1.00	0
\$125.....	\$130.....	17.90	16.10	14.30	12.50	10.70	8.90	7.10	5.30	3.50	1.70	0
\$130.....	\$135.....	18.60	16.80	15.00	13.20	11.40	9.60	7.80	6.00	4.20	2.40	.60
\$135.....	\$140.....	19.30	17.50	15.70	13.90	12.10	10.30	8.50	6.70	4.90	3.10	1.30
\$140.....	\$145.....	20.00	18.20	16.40	14.60	12.80	11.00	9.20	7.40	5.60	3.80	2.00
\$145.....	\$150.....	20.70	18.90	17.10	15.30	13.50	11.70	9.90	8.10	6.30	4.50	2.70
\$150.....	\$160.....	21.70	19.90	18.10	16.30	14.50	12.70	10.90	9.10	7.30	5.50	3.80
\$160.....	\$170.....	23.10	21.30	19.50	17.70	15.90	14.10	12.30	10.50	8.70	6.90	5.20
\$170.....	\$180.....	24.50	22.70	20.90	19.10	17.30	15.50	13.70	11.90	10.10	8.30	6.60
\$180.....	\$190.....	25.90	24.10	22.30	20.50	18.70	16.90	15.10	13.30	11.50	9.70	8.00
\$190.....	\$200.....	27.30	25.50	23.70	21.90	20.10	18.30	16.50	14.70	12.90	11.10	9.40
14 percent of the excess over \$200 plus—												
\$200 and over.....		28.00	26.20	24.40	22.60	20.80	19.00	17.20	15.40	13.60	11.80	10.10

"If the payroll period with respect to an employee is biweekly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0	\$26	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$26	\$28	\$3.80	.20	0	0	0	0	0	0	0	0	0
\$28	\$30	4.10	.50	0	0	0	0	0	0	0	0	0
\$30	\$32	4.30	.80	0	0	0	0	0	0	0	0	0
\$32	\$34	4.60	1.00	0	0	0	0	0	0	0	0	0
\$34	\$36	4.90	1.30	0	0	0	0	0	0	0	0	0
\$36	\$38	5.20	1.60	0	0	0	0	0	0	0	0	0
\$38	\$40	5.50	1.90	0	0	0	0	0	0	0	0	0
\$40	\$42	5.70	2.20	0	0	0	0	0	0	0	0	0
\$42	\$44	6.00	2.40	0	0	0	0	0	0	0	0	0
\$44	\$46	6.30	2.70	0	0	0	0	0	0	0	0	0
\$46	\$48	6.60	3.00	0	0	0	0	0	0	0	0	0
\$48	\$50	6.90	3.30	0	0	0	0	0	0	0	0	0
\$50	\$52	7.10	3.60	0	0	0	0	0	0	0	0	0
\$52	\$54	7.40	3.80	.20	0	0	0	0	0	0	0	0
\$54	\$56	7.70	4.10	.50	0	0	0	0	0	0	0	0
\$56	\$58	8.00	4.40	.80	0	0	0	0	0	0	0	0
\$58	\$60	8.30	4.70	1.10	0	0	0	0	0	0	0	0
\$60	\$62	8.50	5.00	1.40	0	0	0	0	0	0	0	0
\$62	\$64	8.80	5.20	1.60	0	0	0	0	0	0	0	0
\$64	\$66	9.10	5.50	1.90	0	0	0	0	0	0	0	0
\$66	\$68	9.40	5.80	2.20	0	0	0	0	0	0	0	0
\$68	\$70	9.70	6.10	2.50	0	0	0	0	0	0	0	0
\$70	\$72	9.90	6.40	2.80	0	0	0	0	0	0	0	0
\$72	\$74	10.20	6.60	3.00	0	0	0	0	0	0	0	0
\$74	\$76	10.50	6.90	3.30	0	0	0	0	0	0	0	0
\$76	\$78	10.80	7.20	3.60	0	0	0	0	0	0	0	0
\$78	\$80	11.10	7.50	3.90	.30	0	0	0	0	0	0	0
\$80	\$82	11.30	7.80	4.20	.60	0	0	0	0	0	0	0
\$82	\$84	11.60	8.00	4.40	.90	0	0	0	0	0	0	0
\$84	\$86	11.90	8.30	4.70	1.10	0	0	0	0	0	0	0
\$86	\$88	12.20	8.60	5.00	1.40	0	0	0	0	0	0	0
\$88	\$90	12.50	8.90	5.30	1.70	0	0	0	0	0	0	0
\$90	\$92	12.70	9.20	5.60	2.00	0	0	0	0	0	0	0
\$92	\$94	13.00	9.40	5.80	2.30	0	0	0	0	0	0	0
\$94	\$96	13.30	9.70	6.10	2.50	0	0	0	0	0	0	0
\$96	\$98	13.60	10.00	6.40	2.80	0	0	0	0	0	0	0
\$98	\$100	13.90	10.30	6.70	3.10	0	0	0	0	0	0	0
\$100	\$102	14.10	10.60	7.00	3.40	0	0	0	0	0	0	0
\$102	\$104	14.40	10.80	7.20	3.70	.10	0	0	0	0	0	0
\$104	\$106	14.70	11.10	7.50	3.90	.30	0	0	0	0	0	0
\$106	\$108	15.00	11.40	7.80	4.20	.60	0	0	0	0	0	0
\$108	\$110	15.30	11.70	8.10	4.50	.90	0	0	0	0	0	0
\$110	\$112	15.50	12.00	8.40	4.80	1.20	0	0	0	0	0	0
\$112	\$114	15.80	12.20	8.60	5.10	1.50	0	0	0	0	0	0
\$114	\$116	16.10	12.50	8.90	5.30	1.70	0	0	0	0	0	0
\$116	\$118	16.40	12.80	9.20	5.60	2.00	0	0	0	0	0	0
\$118	\$120	16.70	13.10	9.50	5.90	2.30	0	0	0	0	0	0
\$120	\$124	17.10	13.50	9.90	6.30	2.70	0	0	0	0	0	0
\$124	\$128	17.60	14.10	10.50	6.90	3.30	0	0	0	0	0	0
\$128	\$132	18.20	14.60	11.00	7.40	3.80	.30	0	0	0	0	0
\$132	\$136	18.80	15.20	11.60	8.00	4.40	.80	0	0	0	0	0
\$136	\$140	19.30	15.70	12.10	8.60	5.00	1.40	0	0	0	0	0
\$140	\$144	19.90	16.30	12.70	9.10	5.50	1.90	0	0	0	0	0
\$144	\$148	20.40	16.90	13.30	9.70	6.10	2.50	0	0	0	0	0
\$148	\$152	21.00	17.40	13.80	10.20	6.60	3.10	0	0	0	0	0
\$152	\$156	21.60	18.00	14.40	10.80	7.20	3.60	0	0	0	0	0
\$156	\$160	22.10	18.50	14.90	11.40	7.80	4.20	.60	0	0	0	0
\$160	\$164	22.70	19.10	15.50	11.90	8.30	4.70	1.10	0	0	0	0
\$164	\$168	23.20	19.70	16.10	12.50	8.90	5.30	1.70	0	0	0	0
\$168	\$172	23.80	20.20	16.60	13.00	9.40	5.90	2.30	0	0	0	0
\$172	\$176	24.40	20.80	17.20	13.60	10.00	6.40	2.80	0	0	0	0
\$176	\$180	24.90	21.30	17.70	14.20	10.60	7.00	3.40	0	0	0	0
\$180	\$184	25.50	21.90	18.30	14.70	11.10	7.50	3.90	.40	0	0	0
\$184	\$188	26.00	22.50	18.90	15.30	11.70	8.10	4.50	.90	0	0	0
\$188	\$192	26.60	23.00	19.40	15.80	12.20	8.70	5.10	1.50	0	0	0
\$192	\$196	27.20	23.60	20.00	16.40	12.80	9.20	5.60	2.00	0	0	0
\$196	\$200	27.70	24.10	20.50	17.00	13.40	9.80	6.20	2.60	0	0	0
\$200	\$210	28.70	25.10	21.50	17.90	14.30	10.80	7.20	3.60	0	0	0
\$210	\$220	30.10	26.50	22.90	19.30	15.70	12.20	8.60	5.00	1.40	0	0
\$220	\$230	31.50	27.90	24.30	20.70	17.10	13.60	10.00	6.40	2.80	0	0
\$230	\$240	32.90	29.30	25.70	22.10	18.50	15.00	11.40	7.80	4.20	.60	0
\$240	\$250	34.30	30.70	27.10	23.50	19.90	16.40	12.80	9.20	5.60	2.00	0
\$250	\$260	35.70	32.10	28.50	24.90	21.30	17.80	14.20	10.60	7.00	3.40	0
\$260	\$270	37.10	33.50	29.90	26.30	22.70	19.20	15.60	12.00	8.40	4.80	1.20
\$270	\$280	38.50	34.90	31.30	27.70	24.10	20.60	17.00	13.40	9.80	6.20	2.60
\$280	\$290	39.90	36.30	32.70	29.10	25.50	22.00	18.40	14.80	11.20	7.60	4.00
\$290	\$300	41.30	37.70	34.10	30.50	26.90	23.40	19.80	16.20	12.60	9.00	5.40
\$300	\$320	43.40	39.80	36.20	32.60	29.00	25.50	21.90	18.30	14.70	11.10	7.50
\$320	\$340	46.20	42.60	39.00	35.40	31.80	28.30	24.70	21.10	17.50	13.90	10.30
\$340	\$360	49.00	45.40	41.80	38.20	34.60	31.10	27.50	23.90	20.30	16.70	13.10
\$360	\$380	51.80	48.20	44.60	41.00	37.40	33.90	30.30	26.70	23.10	19.50	15.90
\$380	\$400	54.60	51.00	47.40	43.80	40.20	36.70	33.10	29.50	25.90	22.30	18.70
14 percent of the excess over \$400 plus—												
\$400 and over		56.00	52.40	48.80	45.20	41.60	38.10	34.50	30.90	27.30	23.70	20.10

"If the payroll period with respect to an employee is semimonthly—

And the wages are—		And the number of withholding exemptions claimed is—										
At least—	But less than—	0	1	2	3	4	5	6	7	8	9	10 or more
The amount of income tax to be withheld shall be—												
\$0.....	\$28.....	14% of wages	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$28.....	\$30.....	\$4.10	.20	0	0	0	0	0	0	0	0	0
\$30.....	\$32.....	4.30	.50	0	0	0	0	0	0	0	0	0
\$32.....	\$34.....	4.60	.70	0	0	0	0	0	0	0	0	0
\$34.....	\$36.....	4.90	1.00	0	0	0	0	0	0	0	0	0
\$36.....	\$38.....	5.20	1.30	0	0	0	0	0	0	0	0	0
\$38.....	\$40.....	5.50	1.60	0	0	0	0	0	0	0	0	0
\$40.....	\$42.....	5.70	1.90	0	0	0	0	0	0	0	0	0
\$42.....	\$44.....	6.00	2.10	0	0	0	0	0	0	0	0	0
\$44.....	\$46.....	6.30	2.40	0	0	0	0	0	0	0	0	0
\$46.....	\$48.....	6.60	2.70	0	0	0	0	0	0	0	0	0
\$48.....	\$50.....	6.90	3.00	0	0	0	0	0	0	0	0	0
\$50.....	\$52.....	7.10	3.30	0	0	0	0	0	0	0	0	0
\$52.....	\$54.....	7.40	3.50	0	0	0	0	0	0	0	0	0
\$54.....	\$56.....	7.70	3.80	0	0	0	0	0	0	0	0	0
\$56.....	\$58.....	8.00	4.10	.20	0	0	0	0	0	0	0	0
\$58.....	\$60.....	8.30	4.40	.50	0	0	0	0	0	0	0	0
\$60.....	\$62.....	8.50	4.70	.80	0	0	0	0	0	0	0	0
\$62.....	\$64.....	8.80	4.90	1.00	0	0	0	0	0	0	0	0
\$64.....	\$66.....	9.10	5.20	1.30	0	0	0	0	0	0	0	0
\$66.....	\$68.....	9.40	5.50	1.60	0	0	0	0	0	0	0	0
\$68.....	\$70.....	9.70	5.80	1.90	0	0	0	0	0	0	0	0
\$70.....	\$72.....	9.90	6.10	2.20	0	0	0	0	0	0	0	0
\$72.....	\$74.....	10.20	6.30	2.40	0	0	0	0	0	0	0	0
\$74.....	\$76.....	10.50	6.60	2.70	0	0	0	0	0	0	0	0
\$76.....	\$78.....	10.80	6.90	3.00	0	0	0	0	0	0	0	0
\$78.....	\$80.....	11.10	7.20	3.30	0	0	0	0	0	0	0	0
\$80.....	\$82.....	11.30	7.50	3.60	0	0	0	0	0	0	0	0
\$82.....	\$84.....	11.60	7.70	3.80	0	0	0	0	0	0	0	0
\$84.....	\$86.....	11.90	8.00	4.10	.20	0	0	0	0	0	0	0
\$86.....	\$88.....	12.20	8.30	4.40	.50	0	0	0	0	0	0	0
\$88.....	\$90.....	12.50	8.60	4.70	.80	0	0	0	0	0	0	0
\$90.....	\$92.....	12.70	8.90	5.00	1.10	0	0	0	0	0	0	0
\$92.....	\$94.....	13.00	9.10	5.20	1.40	0	0	0	0	0	0	0
\$94.....	\$96.....	13.30	9.40	5.50	1.60	0	0	0	0	0	0	0
\$96.....	\$98.....	13.60	9.70	5.80	1.90	0	0	0	0	0	0	0
\$98.....	\$100.....	13.90	10.00	6.10	2.20	0	0	0	0	0	0	0
\$100.....	\$102.....	14.10	10.30	6.40	2.50	0	0	0	0	0	0	0
\$102.....	\$104.....	14.40	10.50	6.60	2.80	0	0	0	0	0	0	0
\$104.....	\$106.....	14.70	10.80	6.90	3.00	0	0	0	0	0	0	0
\$106.....	\$108.....	15.00	11.10	7.20	3.30	0	0	0	0	0	0	0
\$108.....	\$110.....	15.30	11.40	7.50	3.60	0	0	0	0	0	0	0
\$110.....	\$112.....	15.50	11.70	7.80	3.90	0	0	0	0	0	0	0
\$112.....	\$114.....	15.80	11.90	8.00	4.20	.30	0	0	0	0	0	0
\$114.....	\$116.....	16.10	12.20	8.30	4.40	.50	0	0	0	0	0	0
\$116.....	\$118.....	16.40	12.50	8.60	4.70	.80	0	0	0	0	0	0
\$118.....	\$120.....	16.70	12.80	8.90	5.00	1.10	0	0	0	0	0	0
\$120.....	\$124.....	17.10	13.20	9.30	5.40	1.50	0	0	0	0	0	0
\$124.....	\$128.....	17.60	13.80	9.90	6.00	2.10	0	0	0	0	0	0
\$128.....	\$132.....	18.20	14.30	10.40	6.50	2.60	0	0	0	0	0	0
\$132.....	\$136.....	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0	0
\$136.....	\$140.....	19.30	15.40	11.50	7.70	3.80	0	0	0	0	0	0
\$140.....	\$144.....	19.90	16.00	12.10	8.20	4.30	.40	0	0	0	0	0
\$144.....	\$148.....	20.40	16.60	12.70	8.80	4.90	1.00	0	0	0	0	0
\$148.....	\$152.....	21.00	17.10	13.20	9.30	5.40	1.60	0	0	0	0	0
\$152.....	\$156.....	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0	0
\$156.....	\$160.....	22.10	18.20	14.30	10.50	6.60	2.70	0	0	0	0	0
\$160.....	\$164.....	22.70	18.80	14.90	11.00	7.10	3.20	0	0	0	0	0
\$164.....	\$168.....	23.20	19.40	15.50	11.60	7.70	3.80	0	0	0	0	0
\$168.....	\$172.....	23.80	19.90	16.00	12.10	8.20	4.40	.50	0	0	0	0
\$172.....	\$176.....	24.40	20.50	16.60	12.70	8.80	4.90	1.00	0	0	0	0
\$176.....	\$180.....	24.90	21.00	17.10	13.30	9.40	5.50	1.60	0	0	0	0
\$180.....	\$184.....	25.50	21.60	17.70	13.80	9.90	6.00	2.10	0	0	0	0
\$184.....	\$188.....	26.00	22.20	18.30	14.40	10.50	6.60	2.70	0	0	0	0
\$188.....	\$192.....	26.60	22.70	18.80	14.90	11.00	7.20	3.30	0	0	0	0
\$192.....	\$196.....	27.20	23.30	19.40	15.50	11.60	7.70	3.80	0	0	0	0
\$196.....	\$200.....	27.70	23.80	19.90	16.10	12.20	8.30	4.40	.50	0	0	0
\$200.....	\$210.....	28.70	24.80	20.90	17.00	13.10	9.30	5.40	1.50	0	0	0
\$210.....	\$220.....	30.10	26.20	22.30	18.40	14.50	10.70	6.80	2.90	0	0	0
\$220.....	\$230.....	31.50	27.60	23.70	19.80	15.90	12.10	8.20	4.30	.40	0	0
\$230.....	\$240.....	32.90	29.00	25.10	21.20	17.30	13.50	9.60	5.70	1.80	0	0
\$240.....	\$250.....	34.30	30.40	26.50	22.60	18.70	14.90	11.00	7.10	3.20	0	0
\$250.....	\$260.....	35.70	31.80	27.90	24.00	20.10	16.30	12.40	8.50	4.60	.70	0
\$260.....	\$270.....	37.10	33.20	29.30	25.40	21.50	17.70	13.80	9.90	6.00	2.10	0
\$270.....	\$280.....	38.50	34.60	30.70	26.80	22.90	19.10	15.20	11.30	7.40	3.50	0
\$280.....	\$290.....	39.90	36.00	32.10	28.20	24.30	20.50	16.60	12.70	8.80	4.90	1.00
\$290.....	\$300.....	41.30	37.40	33.50	29.60	25.70	21.90	18.00	14.10	10.20	6.30	2.40
\$300.....	\$320.....	43.40	39.50	35.60	31.70	27.80	24.00	20.10	16.20	12.30	8.40	4.50
\$320.....	\$340.....	46.20	42.30	38.40	34.50	30.60	26.80	22.90	19.00	15.10	11.20	7.30
\$340.....	\$360.....	49.00	45.10	41.20	37.30	33.40	29.60	25.70	21.80	17.90	14.00	10.10
\$360.....	\$380.....	51.80	47.90	44.00	40.10	36.20	32.40	28.50	24.60	20.70	16.80	12.90
\$380.....	\$400.....	54.60	50.70	46.80	42.90	39.00	35.20	31.30	27.40	23.50	19.60	15.70
\$400.....	\$420.....	57.40	53.50	49.60	45.70	41.80	38.00	34.10	30.20	26.30	22.40	18.50
\$420.....	\$440.....	60.20	56.30	52.40	48.50	44.60	40.80	36.90	33.00	29.10	25.20	21.30
\$440.....	\$460.....	63.00	59.10	55.20	51.30	47.40	43.60	39.70	35.80	31.90	28.00	24.10
\$460.....	\$480.....	65.80	61.90	58.00	54.10	50.20	46.40	42.50	38.60	34.70	30.80	26.90
\$480.....	\$500.....	68.60	64.70	60.80	56.90	53.00	49.20	45.30	41.40	37.50	33.60	29.70
14 percent of the excess over \$500 plus—												
\$500 and over.....		70.00	66.10	62.20	58.30	54.40	50.60	46.70	42.80	38.90	35.00	31.10

1 ~~(c) WITHHOLDING OF TAX ON CERTAIN NONRESI-~~
 2 ~~DENT ALIENS.—~~

3 ~~(1)~~ Section 1441(a) ~~(relating to general rule)~~ is
 4 amended by striking out “the tax shall be equal to 18
 5 percent of such item.” and inserting in lieu thereof:

6 “the tax shall be equal to—

7 “~~(1)~~ 15 percent in the case of payments made dur-
 8 ing the calendar year 1964, and

9 “~~(2)~~ 14 percent in the case of payments made after
 10 December 31, 1964.”

11 ~~(2)~~ Section 1441(b) ~~(relating to income items)~~
 12 is amended by striking out “18 percent” and by insert-
 13 ing in lieu thereof “15 percent or 14 percent (as the
 14 case may be)”.
 15 (c) WITHHOLDING OF TAX ON CERTAIN NON-

16 RESIDENT ALIENS.—Subsections (a) and (b) of section
 17 1441 (relating to withholding of tax on nonresident aliens)
 18 are amended by striking out “18 percent” and inserting in
 19 lieu thereof “14 percent.”

20 (d) EFFECTIVE DATES.—The amendments made by sub-
 21 sections (a) and (b) of this section shall apply with re-

1 spect to remuneration paid after ~~December 31, 1963~~ the
2 *seventh day following the date of the enactment of this Act.*
3 The amendment made by subsection (c) of this section shall
4 apply with respect to payments made after ~~December 31,~~
5 ~~1963~~ *the seventh day following the date of the enactment of*
6 *this Act.*

Passed the House of Representatives September 25, 1963.

Attest:

RALPH R. ROBERTS,

Clerk.

TABLE OF CONTENTS

Section 1. Short title, etc.-----	Page 2
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TITLE I—REDUCTION OF INCOME TAX RATES AND RELATED AMENDMENTS

PART I—INDIVIDUALS

Sec. 111. Reduction of tax on individuals.	
(a) Individuals other than heads of households-----	2
(b) Heads of households-----	5
Sec. 112. Minimum standard deduction.	
(a) General rule-----	8
(b) Amendment of section 2-----	10
(c) Amendments of section 144-----	10
(d) Conforming amendments-----	11
Sec. 113. Related amendments.	
(a) Retirement income credit-----	11
(b) Tax on nonresident alien individuals-----	11
Sec. 114. Cross references to tax tables, etc.-----	12

PART II—CORPORATIONS

Sec. 121. Reduction of tax on corporations-----	12
Sec. 122. Current tax payments by corporations.	
(a) Installment payments of estimated income tax by corporations-----	14
(b) Time for filing declarations of estimated income tax by corporations-----	19
(c) Failure by corporations to pay estimated income tax-----	21
(d) Technical amendment-----	22
Sec. 123. Related amendments.	
(a) Tax on mutual insurance companies (other than life, etc.)-----	22
(b) Receipt of minimum distributions by domestic corporations---	24
(c) Amendment of section 242-----	25

PART III—EFFECTIVE DATES

Sec. 131. General rule-----	26
Sec. 132. Fiscal year taxpayers-----	26

TITLE II—STRUCTURAL CHANGES

Sec. 201. Dividends received by individuals.	
(a) Reduction of 4 percent credit to 2 percent credit for calendar year 1964-----	28
(b) Repeal of credit for dividends received by individuals-----	29
(c) Doubling of amount of partial exclusion from gross income of dividends received by individuals-----	29
(d) Conforming amendments-----	29
(e) Effective dates-----	31

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 202. Limitation on retirement income.	Page
(a) Increase in limitation in case of certain married couples.....	32
(b) Effective date.....	33
Sec. 203. Repeal of requirement that basis of section 38 property be reduced by 7 percent; other provisions relating to investment credit.	
(a) Repeal of requirement that basis be reduced.....	33
(b) Basis of certain leased property to lessee.....	36
(c) Treatment of elevators and escalators for purposes of the investment credit.....	36
(d) Treatment of elevators and escalators for purposes of section 1245.....	37
(e) Treatment of investment credit by Federal regulatory agencies..	38
(f) Effective dates.....	39
Sec. 204. Group-term life insurance purchased for employees.	
(a) Inclusion in income.....	40
(b) Withholding.....	44
(c) Information reporting.....	45
(d) Effective dates.....	47
Sec. 205. Amounts received under wage continuation plans.	
(a) Wage continuation plans.....	49
(b) Effective date.....	49
Sec. 206. Exclusion from gross income of gain on sale or exchange of residence of individual who has attained age 65.	
(a) In general.....	49
(b) Technical and clerical amendments.....	54
(c) Effective date.....	55
Sec. 207. Denial of deduction for certain State, local, and foreign taxes.	
(a) In general.....	55
(b) Technical amendments.....	59
(c) Effective date.....	62
Sec. 208. Personal casualty and theft losses.	
(a) Limitation on amount of casualty or theft loss deduction.....	63
(b) Effective date.....	63
Sec. 209. Charitable, etc., contributions and gifts.	
(a) Certain organizations added to additional 10-percent charitable limitation.....	64
(b) Limitation of unlimited charitable contribution deduction.....	64
(c) 5-year carryover of certain charitable contributions made by individuals.....	66
(d) 5-year carryover of certain charitable contributions made by corporations.....	68
(e) Future interests in tangible personal property.....	70
(f) Effective dates.....	71

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 210. Losses arising from expropriation of property by governments of foreign countries.	
(a) Net operating loss carryover.....	Page 72
(b) Technical amendments.....	75
(c) Effective date.....	76
Sec. 211. One-percent limitation on medicine and drugs.	
(a) General rule.....	76
(b) Effective date.....	77
Sec. 212. Care of dependents.	
(a) Child care allowance.....	77
(b) Effective date.....	82
Sec. 213. Moving expenses.	
(a) Deduction allowed for moving expenses.....	83
(b) Adjusted gross income.....	86
(c) Withholding.....	86
(d) Effective dates.....	86
Sec. 214. Deduction for political contributions.	
(a) Allowance of deduction.....	87
(b) Technical amendment.....	88
(c) Effective date.....	88
Sec. 215. 100 percent dividends received deduction for members of electing affiliated groups.	
(a) 100 percent dividends received deduction.....	89
(b) Technical amendments.....	96
(c) Effective date.....	97
Sec. 216. Interest on loans incurred to purchase certain insurance and annuity contracts.	
(a) Disallowance of interest deduction.....	98
(b) Exceptions	98
(c) Effective date.....	99
Sec. 217. Interest on indebtedness incurred or continued to purchase or carry tax-exempt bonds.	
(a) Application with respect to certain financial institutions.....	100
(b) Effective date.....	101
Sec. 218. Repeal of requirement of allocation of certain traveling expenses.	
(a) Repeal of section 274(c).....	101
(b) Effective date.....	101
Sec. 219. Acquisition of stock in exchange for stock of corporation which is in control of acquiring corporation.	
(a) Definition of reorganization.....	101
(b) Technical amendments.....	102
(c) Effective date.....	103
Sec. 220. Retroactive qualification of certain union-negotiated multi-employer pension plans.	
(a) Beginning of period as qualified trust.....	103
(b) Effective date.....	104

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 221. Qualified pension, etc., plan coverage for employees of certain subsidiary employers.	
(a) Employees of foreign subsidiaries covered by social security agreements.....	Page 105
(b) Employees of domestic subsidiaries engaged in business outside the United States.....	110
(c) Technical amendments.....	116
(d) Effective date.....	118
Sec. 222. Employee stock options and purchase plans.	
(a) In general.....	118
“Sec. 421. General rules.	
(a) Effect of qualifying transfer.....	118
(b) Effect of disqualifying disposition.....	119
(c) Exercise by estate.....	119
“Sec. 422. Qualified stock options.	
(a) In general.....	121
(b) Qualified stock option.....	122
(c) Special rules.....	124
“Sec. 423. Employee stock purchase plans.	
(a) General rule.....	129
(b) Employee stock purchase plan.....	129
(c) Special rule where option price is between 85 percent and 100 percent of value of stock.....	133
“Sec. 424. Restricted stock options.	
(a) In general.....	135
(b) Restricted stock option.....	135
(c) Special rules.....	137
“Sec. 425. Definitions and special rules.	
(a) Corporate reorganizations, liquidations, etc.....	140
(b) Acquisition of new stock.....	141
(c) Disposition.....	141
(d) Attribution of stock ownership.....	142
(e) Parent corporation.....	143
(f) Subsidiary corporation.....	143
(g) Special rule for applying subsections (e) and (f).....	144
(h) Modification, extension, or renewal of option.....	144
(i) Stockholder approval.....	146
(j) Cross references.....	146
(b) Administrative provisions.....	147
(1) Reporting requirement for certain options.....	147
(2) Penalties for failure to file information returns.....	149
(3) Penalties for failure to furnish statements to persons with respect to whom returns are filed.....	151
(c) Technical amendments.....	151
(d) Clerical amendments.....	152
(e) Effective dates and transition rules.....	153

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 223. Installment sales by dealers in personal property.	Page
(a) Installment plans-----	154
(b) Effective date-----	155
Sec. 224. Timing of deductions and credits in certain cases where asserted liabilities are contested.	
(a) Taxable year of deduction or credit-----	155
(b) Effective dates-----	156
(c) Election as to transfers in taxable years beginning before January 1, 1964-----	157
(d) Certain other transfers in taxable years beginning before January 1, 1964-----	158
Sec. 225. Interest on certain deferred payments.	
(a) In general-----	159
(b) Clerical amendment-----	163
(c) Effective date-----	163
Sec. 226. Personal holding companies.	
(a) Personal holding company tax rate-----	164
(b) Definition of personal holding company-----	164
(c) Excluded corporations-----	164
(d) Personal holding company income-----	170
(e) Foreign personal holding company income and stock ownership-----	181
(f) Dividends-paid deduction-----	188
(g) One-month liquidations-----	191
(h) Exception for certain corporations-----	196
(i) Deduction for amortization of indebtedness-----	197
(j) Technical amendments-----	208
(k) Effective dates-----	210
Sec. 227. Treatment of property in case of oil and gas wells.	
(a) In general-----	211
(b) Technical amendments-----	215
(c) Allocation of basis in certain cases-----	216
(d) Effective date-----	218
Sec. 228. Treatment of certain iron ore royalties.	
(a) In general-----	219
(b) Clerical amendments-----	220
(c) Effective date-----	222
Sec. 229. Insurance companies.	
(a) Certain mutualization distributions made in 1962-----	222
(b) Accrual of bond discount-----	223
(c) Contributions to qualified, etc., plans-----	224
(d) Effective dates-----	224
Sec. 230. Regulated investment companies.	
(a) Time for mailing certain notices to shareholders-----	224
(b) Certain redemptions by unit investment trusts-----	225
(c) Effective dates-----	225

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 231. Foreign tax credit with respect to certain foreign mineral income.	Page
(a) Limitation on amount of foreign taxes to be taken into account.	226
(b) Effective date.	228
Sec. 232. Amounts received from employer on sale of residence of employee in connection with transfer to new place of work.	
(a) Treatment of certain amounts received from employer on sale of residence of employee in connection with transfer to new place of work.	229
(b) Effective date.	233
Sec. 233. Gain from dispositions of certain depreciable realty.	
(a) Gain from dispositions of certain depreciable realty.	272
"Sec. 1250. Gain from dispositions of certain depreciable realty.	
(a) General rule.	272
(b) Additional depreciation defined.	273
(c) Section 1250 property.	275
(d) Exceptions and limitations.	275
(e) Holding period.	280
(f) Special rules for property which is substantially improved.	281
(g) Adjustments to basis.	284
(h) Application of section.	285
(b) Technical amendments.	285
(c) Effective date.	287
Sec. 234. Averaging.	
(a) General rule.	287
"Sec. 1301. Limitation on tax.	287
"Sec. 1302. Definition of averagable income; related definitions.	
(a) Averagable income.	288
(b) Adjusted taxable income.	288
(c) Average base period income.	290
(d) Capital gain net income, etc.	291
(e) Other related definitions.	292
"Sec. 1303. Eligible individuals.	
(a) General rule.	293
(b) Nonresident alien individuals.	293
(c) Individuals receiving support from others.	293
(d) Student defined.	295
"Sec. 1304. Special rules.	
(a) Taxpayer must choose benefits.	295
(b) Certain provisions inapplicable.	295
(c) Failure of certain married individuals to make joint return, etc.	296

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

“Sec. 1304. Special rules.—Continued	Page
(d) Dollar limitations in case of joint returns.....	298
(e) Special rules where there are capital gains.....	299
(f) Treatment of certain other items.....	300
(g) Short taxable years.....	301
“Sec. 1305. Regulations.....	301
(b) Repeal of section 72(e)(3).....	301
(c) Amendment of section 144.....	301
(d) Statute of limitations.....	302
(e) Technical amendments.....	304
(f) Clerical amendments.....	304
(g) Effective date.....	305
Sec. 235. Small-business corporations.	
(a) Ownership of certain stock disregarded.....	306
(b) Certain distributions of money after close of taxable year.....	307
(c) Effective dates.....	309
Sec. 236. Repeal of additional 2-percent tax for corporations filing consolidated returns.	
(a) Repeal of tax.....	309
(b) Technical and conforming amendments.....	309
(c) Effective date.....	317
Sec. 237. Reduction of surtax exemption in case of certain controlled corporations, etc.	
(a) In general.....	318
“Sec. 1561. Surtax exemptions in case of certain controlled corporations.	
(a) General rule.....	318
(b) Certain short taxable years.....	319
“Sec. 1562. Privilege of groups to elect multiple surtax exemptions.	
(a) Election of multiple surtax exemptions.....	319
(b) Additional tax imposed.....	321
(c) Termination of election.....	323
(d) Election after termination.....	325
(e) Manner and time of giving consent and making election, etc.....	325
(f) Special rules.....	326
(g) Tolling of statute of limitations.....	328
“Sec. 1563. Definitions and special rules.	
(a) Controlled group of corporations.....	329
(b) Component member.....	331
(c) Certain stock excluded.....	333
(d) Rules for determining stock ownership.....	336
(e) Constructive ownership.....	337
(f) Other definitions and rules.....	341

TABLE OF CONTENTS—Continued

TITLE II—STRUCTURAL CHANGES—Continued

Sec. 237. Reduction of surtax, etc.—Continued	Page
(b) Disallowance of surtax exemption and accumulated earnings credit.....	344
(c) Technical amendments.....	347
(d) Effective date.....	349
Sec. 238. Validity of tax liens against mortgagees, pledgees, and purchasers of motor vehicles.	
(a) Mortgagees, pledgees, and purchasers without actual notice or knowledge of lien.....	350
(b) Liens for estate and gift taxes.....	351
(c) Effective date.....	351

TITLE III—OPTIONAL TAX ON INDIVIDUALS; COLLECTION OF INCOME
TAX AT SOURCE ON WAGES

Sec. 301. Optional tax if adjusted gross income is less than \$5,000.	
(a) Optional tax.....	352
(b) Rules for optional tax.....	363
(c) Effective date.....	365
Sec. 302. Income tax collected at source.	
(a) Percentage method of withholding.....	366
(b) Wage bracket withholding.....	372
(c) Withholding of tax on certain nonresident aliens.....	378
(d) Effective dates.....	378



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